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Profile of Private Sector Cross-Border Trade Between Afghanistan and Pakistan

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A PROFILE OF PRIVATE SECTOR CROSS-BORDER TRADE BETWEEN AFGHANISTAN AND PAKISTAN

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PREFACE

This report was prepared as Delivery Order No. 2 of A.I.D. Contract No. 306-0205-C-00-9385-00, the Afghanistan Series of Studies Project. This contract is a joint venture between Robert R. Nathan Associates, Inc. and Louis Berger International, Inc. The research reported on here was carried out by a four-person team of consultants from these two firms and from Atlas Associates, a subcontractor to the joint venture. The team consisted of Dr. Joseph Weiss as team leader/marketing and transport economist, Dr. John Newton as financial and trade economist, Dr. Barton Sensenig as social anthropologist, and Ms. Aroona Kamal as economic and policy analyst.

The research team would like to thank Mr. Larry Crandall and Mr. John Miller, A.I.D. Representative and Deputy Representative, respectively of O/AID/REP/Afghanistan, for their cooperation and that of their staff during the course of this study. All the staff expressed interest and provided some input. A list is presented in Appendix D. Mr. Val Mahan, Project Officer for the Afghanistan Studies Project and Dr. Curt Wolters, Officer in charge of Delivery Order 2, provided careful guidance and ideas throughout. Special thanks are due the representatives of the Pakistani and Afghan private sectors who aided the team, both as interviewees and advisers, most of whom are listed in Appendix D.

GLOSSARY

Afghani	Unit of Afghan currency. Official rate: Af 90 = US$1.00 as of end-June, 1989
A.I.D.	U.S. Agency for International Development
AIG	Afghan Interim Government
Bill of Exchange	A negotiable order to pay a fixed sum of money, usually in foreign currency, written by a first party (the drawer) to a second party (the drawee) for payment to a third party (the payee)
FATA	Federally Administered Tribal Areas
GOP	Government of Pakistan
LC	Letter of Credit
NGO	Nongovernmental Organization
O/AID/REP	Office of the A.I.D. Representative for Afghan Affairs
PVO	Private Voluntary Organization
Rupee	Unit of Pakistani currency. Official rates: Rs 21.5 = US$1.00, as of end-June 1989, and Rs 17.4 = US$1.00, average during fiscal year 1988.
Tribals	Commonly-used term for tribesmen of the Pakistani-Afghan border area, largely of the Shinwari and Afridi tribes of the Pashtun cultural group
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees

I. INTRODUCTION AND EXECUTIVE SUMMARY

This report constitutes the first phase of a two-phase study of cross-border trade between Afghanistan and Pakistan. It is intended to identify and describe the fundamental means of carrying out that trade and to estimate its basic magnitude in a preliminary fashion, while outlining Phase II of the study. To that end, Chapter II provides a conceptual overview of the cross-border trading system, describing the specific roles and interactions of the economic agents typically involved in the system. The transportation system utilized for this trade is the subject of Chapter III, which addresses specifically the routes, costs, and types of conveyance employed. A description and initial analysis of the means of finance of trade is presented in Chapter IV, and the government regulations controlling or impeding trade are addressed in Chapter V. Our initial estimates of both official and unofficial trade volume are given in Chapter VI. Finally, in Chapter VII, we discuss the implications of our research results for the more extensive work to be carried out during Phase II.

The remainder of this introductory chapter includes a discussion of the objectives and background of the project, a description of the methodology employed, and an executive summary of the results.

Objectives

The Delivery Order for Phase I specifies three fundamentally descriptive objectives for three specific product groups, as follows.

- Basic foodstuffs, particularly wheat
- Agricultural inputs, including seed, implements, and fertilizer
- Fuels, especially those utilized in rural areas

Utilizing data for these product groups available within Pakistan, the study is intended to describe the following elements of both official and unofficial cross-border trade.

- The trading process itself, including the roles, interactions, and means of transportation involved
- The general magnitude of trade for the three product categories
- The basic means of finance of trade as currently carried out, including both formal and informal financial mechanisms

The final objective of Phase I is to provide a detailed scope of work for Phase II. The results of the first three objectives are preliminary in nature and are to be elaborated during Phase II.

Background

The Office of the A.I.D. Representative for Afghan Affairs (O/AID/REP) requires an understanding of cross-border trade between Afghanistan and Pakistan in order to support program and project activities in several areas, including the ongoing transport of goods into Afghanistan, the assessment of transportation system requirements, the projection of requirements during any prospective resettlement of Afghan refugees, and the assessment of Afghan agricultural and agribusiness needs. The current state of trade arrangements — including volume and prospective resiliency under continued stress — will greatly affect O/AID/REP activities in the near and intermediate term.

Cross-border trading patterns of several centuries standing in this region have been severely impacted by the Soviet occupation, the socialist policies of the Kabul government, and civil war over the past decade. They have been especially affected by recent major sets of events, including the siege of Jalalabad, in progress since October 1988, and the military moves surrounding the termination of the Soviet occupation.

Historically, the principal products exported by Afghanistan to or through Pakistan have included temperate-area fruits and vegetables, both fresh and dried, and animal hides and products. Afghanistan was (prior to the Soviet invasion) self-sufficient in wheat and often exported that and other grains to Pakistan. Currently, Afghanistan is highly dependent on imports of basic foodstuffs, both from Pakistan and the Soviet Union. Wheat, ghee, livestock, and fuel — formerly produced in the country — are now imported, often from Pakistan, and largely by means of private sector traders. Transhipment of goods through Pakistan, another traditional element of cross-border trade, has usually been weighted toward manufactured items, often later re-exported illegally to Pakistan.

A key element in traditional trading patterns in the Pakistani-Afghan border region has been the role of the Pashtun or Pathan tribesmen whose sphere of control spans both sides of the border. The term "cross-border trade" should not be mistakenly construed to omit these major actors by omitting reference to their tribal areas straddling the border. Figure I-1 shows the Northwest Frontier Province of Pakistan, indicating the series of Tribal Agencies along the border which were allocated to the Pashtun tribes by the British and are today federally administered and exempt from most Pakistani law. The key aspect of this arrangement of relevance to this study is that tribal residents of these border Agencies can freely pass control posts into their territories. To carry goods in any quantity, all they require is a permit issued by the Political Agent. Once inside these territories, they can cross over into Afghanistan with relative ease. Pashtun tribals[1] thus play a major role in unofficial trade.

Political Agents also maintain order along the highways, but otherwise, like the British before them, leave the tribals alone. The border territory away from the highways falls under the control of the Afridi and Shinwari tribesmen, who live (and treat outsiders) by their own "Pashtunwali" code, which incorporates elements similar to chivalry, the code of the "wild west," and "hillbilly" feuding. The Pashtun have a well-deserved reputation for ferocity. A long history of invaders, including Alexander the Great, the Moguls, the British, and most recently the Russians, have failed to subdue them.

It is within this economic and social context that we address the study objectives stated above.

Methodology

This project was carried out using data from interviews — largely respondent recall and role characterization — as well as official data from GOP, A.I.D., and UN sources. The specific sources and methods of analysis applied to these data are described below.

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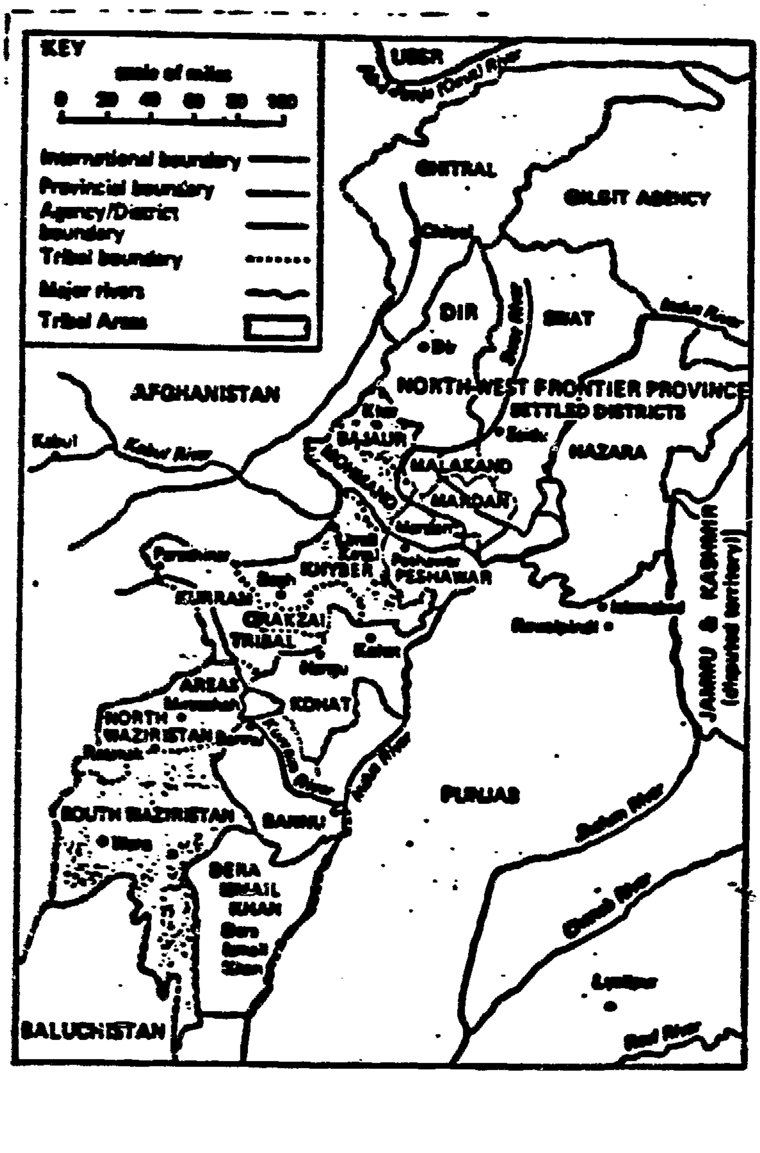
1. Throughout this report we employ the commonly-used though linguistically inelegant term "tribals" to refer to the Afridi and Shinwari tribesmen of the Afghan-Pakistani border area.

Figure I-1

MAP OF THE NORTH-WEST FRONTIER PROVINCE OF PAKISTAN



SOURCE: Akbar S. Ahmed, 1980. Pukhtun Economy and Society. London: Routledge & Kegan Paul.

Interview Data

The research team carried out in-depth, probing interviews in English, Pashtu, and Punjabi, using interpreters where necessary. The questions asked of interviewees followed a general interview guide which was not usually shown to the respondent. This instrument was constantly modified and developed during the course of research and was used as input in designing one of the survey instruments planned for Phase II (See Appendix B). The responses gathered were fairly comprehensive and consistent, regardless of the ongoing changes in questionnaire format.

For this Phase I study, the research team did not attempt a formally selected statistical sample of respondents within the cross-border trade community, opting instead for an overview of the trading process and the magnitudes involved. This approach will allow a more reliably designed and selected sample during Phase II. Nevertheless, the team did attempt to stratify the chosen sample of respondents, by targeting a minimum number of candidates in each trading category. The method chosen was to classify respondents as "large-volume" or "small-volume" participants in their particular specialty, with the specialties initially defined according to the prior experience of the team members in agricultural marketing and regional development. These defined specialties, of course, were modified and extended during the course of the investigation. Additional respondents were often suggested by prior respondents or contacts, but some were also chosen more-or-less at random in the marketplace. Although it was not always possible to complete three interviews for each category, the final sample seems to be fairly representative.

The basic information gathered during these interviews consisted of four types, as follows.

- Descriptions of the <u>trading system</u>, including identifications of the major actors and the relationships among them

- Specific descriptions and characterizations of the <u>transport and finance systems</u> corresponding to the cross-border trade process

- <u>Prices, transport costs, and markups</u> for these goods on both sides of the border

- <u>Trade volumes</u>, in standard 10-ton truck loads, through the major passes into Afghanistan, for each of the selected product groups

Although the team interviewed participants in both official and unofficial commerce (most traders are involved in both), the focus of the questions was unofficial trade. In this context, two concerns received special attention: motivating respondents to speak openly and minimizing personal bias. The first concern proved less of a problem than anticipated, perhaps because unofficial trade is so common that respondents felt no fear in speaking openly about it. In order to maximize this tendency toward openness, the team employed three tactics: (1) conducting interviews in local languages, using translators familiar with common trading practices; (2) stating the purpose of the study as exploring ways of increasing cross-border trade; and (3) asking about unofficial practices in the third person, rather than as activities in which the respondents themselves might be taking part. These tactics were generally successful: only government officials proved entirely reluctant to speak about unofficial trade in detailed terms.

Personal respondent bias was apparent in several of the team's interviews, although significant variation in responses was expected due to the individualistic nature of Pashtun culture. The tactic employed for detecting such bias was the journalistic technique of soliciting responses to stated generalizations and then confirming (or denying) those responses by repetition in subsequent interviews.

During Phase II, all these techniques could be rendered more effective by employing local interviewers rather than expatriates. Due to the consistency of responses among individuals and across markets, however, we are confident in the general reliability of the Phase I interview results.

Characterization of Roles and Relationships

A typology of trade roles and relationships was developed in three stages, as follows.

- The specific repetitive actions of individual actors in the trading process were set out in chronological order, based on the self-reporting of interview respondents as well as the analysis of prior studies.

- The sets of actions were separated into defined roles, depending on the degree of integration of separate trade-related activities.

- Inter-relationships were then identified among the resulting role types.

In many cases, the resulting roles and relationships did not correspond

precisely to traditional preconceptions. In particular, many roles in the cross-border trade system tend to be combined or performed by the same individual or business concern.

Official Data Sources

Recorded trade flows by specific products (SITC 7-digit classifications) are published by the GOP Federal Bureau of Statistics, based on physical data and FOB valuations supplied by the GOP Central Board of Revenue - Customs. These data are comprehensive reports of all recorded trade flows, including both commercial and parcel post transfers by land, sea, and air. They are supposed to represent all actual flows of goods, as opposed to approved payments for those goods, as published by the State Bank of Pakistan. For the case of Afghan-Pakistani trade, these data do not include transhipments ("in-transit" goods), which are itemized in a separate publication by the Statistics Division of the Ministry of Commerce.

For purposes of this report, the GOP data were tabulated by 7-digit classification for the specific product groups of interest to O/AID/REP: (1) foodstuffs, broadened to include all agricultural production; (2) agricultural inputs, including implements, machinery and parts, fertilizer, and crop seed; and (3) fuels, including both petroleum products and rural fuels (mainly kerosene). The export-import totals and proportions resulting from this tabulation were compared to interview-based and other information relevant to cross-border trade volume, resulting in a characterization of the coverage and reliability of the official data. As a preliminary analytical measure, the official data were then converted to "10-ton truck-load equivalents," to facilitate comparison with unofficial trade flows resulting from interviews.

Summary of Results

This executive summary follows the course of the analysis of the report itself. As is the case with the full analysis, the conclusions presented here must be considered preliminary, due to the limitations of time and data available during Phase I of the study. In addition, the conclusions cannot present a complete picture of Afghanistan's trade patterns. As specified in the scope of work for this phase of research, the analysis (1) addresses only Afghanistan's trade with Pakistan, (2) covers only selected products, and not necessarily the products of greatest trade volume, (3) includes only data available on the Pakistani side of the border, and (4) does not include information, observations, or interviews which would be available only inside the tribal border areas.

The long history of effective cross-border trade between Pakistan and Afghanistan has been severely complicated by events surrounding the ongoing war. Such factors as the participation of border area tribes, the extensive

practice of unofficial trade (smuggling), the extensive network of informal financial mechanisms, and the existence of generations-old private trading concerns and agreements may have been more-or-less permanently changed by these events. Nevertheless, trade has continued, regardless of higher transport costs and risks.

This continuing trade between the two countries can be explained by the following circumstances.

- Comparative advantages of both countries: Afghanistan has a temperate agricultural base, while Pakistan has sub-tropical and tropical agriculture and a more modern industrial base.

- Differences in price levels and purchasing power : Prices of relevant commodities are higher in Afghanistan due to scarcity there and subsidies in Pakistan, although purchasing power may ~~wain~~ in wane Afghanistan as exports continue to decline and the currency continues to devalue.

- Differences in effective economic policy: Afghanistan's is an effectively (though not officially) free trade economy, while Pakistan's is regulated, with an often overvalued exchange rate and protected industry.

Most of the trade has been unofficial due to the following circumstances.

- Pakistani trade controls, including import constraints, export prohibitions, and price subsidies

- Porous borders, facilitated by the adjacent unregulated tribal areas

The marketing system has been characterized by close, long-term relationships based upon personal trust between big businessmen as well as between small traders in Afghanistan and Pakistan. While the business environment is highly competitive overall, the market tends to be segmented on a territorial basis, leading to localized monopoly effects, especially (and perhaps only) during war. There are indications of a cartel in the resale of donated wheat from the refugee camps. A major intermediate-term constraint on the cross-border market may be Afghanistan's limited buying power.

Regarding the future capacity of the marketing system, the current surfeit of below-capacity operations and especially of available liquidity among traditional traders and money exchangers indicates that the existing

private trade system is capable of handling trade volumes as much as ten times the current levels.

The cross-border transportation system has been more seriously affected by the war than other elements of the trading process. Not only are many roads and bridges destroyed or mined, necessitating the opening of alternate routes, but the vehicle fleet has been affected. Current excess trucking capacity notwithstanding, many vehicles have reportedly been damaged, while those operating are heavily "depreciated" and "self-insured" by their owners in pricing transportation services, which implies a low expected lifetime for the vehicles.

Due to the team's lack of access to the border areas during Phase I, we could not produce a reliable estimate of the breakdown of trade by mode of transport and vehicle size. However, the order of importance, based on interview responses, seems to be as follows.

- Medium trucks (about 10 metric tons)
- Large trucks (about 20 metric tons)
- Pick-ups and mini-vans
- Pack animals
- Human power

Freight rates have increased considerably since the siege of Jalalabad, due to worsened road and security conditions, longer distances, smaller truck sizes and load/capacity ratios, and the necessity for transshipment processes. While the use of one truck from origin to destination predominated previously, war and border control conditions have necessitated the following types of transshipment at the border.

- Full-load transfer to other trucks
- Partial-load transfer to pack animals or pick-ups
- Multiple-stage transfers to pack animals or pick-ups and then to other trucks

The financial system is largely based on the traditional <u>hundi</u> or <u>hawala</u> currency transfer system, which facilitates payments through foreign exchange and non-cash instruments approximately equivalent to checks, as well as providing occasional advances or loans. Self-financing by traders is the key source of advanced trade liquidity, although traders do often obtain general-purpose commercial and personal loans from commercial banks, which are then used to finance international trade. The <u>hundi</u> system operates quite

efficiently and is capable of providing sufficient trade finance in the broad sense — that of supplying foreign exchange and means of noncash payment.

Politically it will not be possible to remove most Pakistani government regulations and controls, especially subsidies and price controls of basic commodities. The export of many basic commodities is banned or restricted to public agencies, and has been for more than four decades, and is thus carried out unofficially, facilitated by the limited enforcement at the porous border within unregulated tribal areas.

Goods transshipped to Afghanistan are not eligible for Pakistan-issued letters of credit. The free exchange of rupees and afghanis is permitted, however. The Pushtoon shipping agent in Karachi interprets the Pakistan-Afghanistan transshipment agreement by insisting on rail transport, often resulting in delays and higher costs. Private traders do use trucks and trailers.

Both the Mujahideen and the Kabul Government control cross-border traffic at various points. Tax and duty rates are nominally low in Afghanistan, but add considerably to the final cost of goods in the interior when compounded with bribes and tips (informal duties and taxes) along the route.

Estimates of official and unofficial trade volume are not strictly comparable, due to differences in products, time periods and units of measurement. For illustrative purposes, however, comparative measures can be calculated, and they indicate that unofficial trade is currently at least eight times the volume of official trade.

Taken at face value, official Pakistani trade data indicate that Afghanistan sold only approximately US$ 13.1 million (US$ 12.4 million in the selected commodity groups) in officially traded goods to its neighbor in fiscal year 1988, and bought only about US$ 36.8 million (US$ 27.3 in the selected groups) of such goods. Unofficial cross-border trade is much more extensive, however, and is especially concerned with the project's target commodities. Research team members asked interviewees to estimate the current volume of traffic in the three target product groups and by major groups of routes, leaving out legal shipments, transit goods, and public sector and NGO shipments (including food aid). Although the responses are not a scientifically selected sample survey, they have proven to be remarkably consistent across different types of respondents.

The basic measurement is physical volume per day, measured in standard truck-loads of 10 metric tons. Currently, between 97 and 139 trucks per day are estimated to cross the border. The level of trade was even greater prior to October 1988, ranging between 200 and 300 trucks per day. Despite the basic noncomparability between the two types of trade, official trade estimated in standard truck-loads reached only 12 per day in fiscal

year 1988, compared to a current minimum estimate of 100 trucks per day of unofficial trade, even after the Jalalabad siege. Unofficial trade, then, outweighs official trade by at least a factor of eight to one.

There are extensive transhipments to Afghanistan through Pakistan. Most of this trade is outside our assigned product groups, but Afghanistan did export US$ 7.4 million in fresh and dried fruit through Pakistan in fiscal year 1988 (out of total transhipped exports of US$ 15.1 million) and imported US$ 13.4 million in tea (out of total transhipped imports of US$ 119 million). Other target items may have been included in the highly aggregated categories of data prepared by the Ministry of Trade, but in general this trade consists of manufactured items, most of which (reportedly 75 percent) actually return to Pakistani border markets by unofficial channels.

Phase II of the cross-border trade study has been conceived to obtain substantially all information which might be needed for near-term programming in this field by O/AID/REP. We have identified the following additional field information requirements in this respect.

- Detailed trader profiles, marketing channels and constraints, especially in Afghanistan and tribal areas

- More accurate quantification of existing trade

- Price and availability measures of key commodities in major Afghan markets, as well as measures of their demand, capacity and potential

- Profiles of cross-border delivery systems used by PVOs

In addition, it will be necessary to review relevant GOP policy in greater detail, summarize the U.S. commodity assistance programs, and survey elements of the trade, transport and credit systems which might be useful to O/AID/REP in the near future.

II. DESCRIPTION OF TRADING ROLES AND INTERACTIONS

This chapter describes the actors engaged in cross-border trade along with their roles and interactions. It begins with a general overview of interactions and then presents details on official Pakistani exports to Afghanistan, unofficial Pakistani exports to Afghanistan, and finally imports into Pakistan from Afghanistan, both official and unofficial.

As in the remainder of this study, the term "official" refers to trade passing through Pakistani customs — and therefore "legal" in Pakistan — while the term "unofficial" refers to all other trade. In fact, a single shipment may undergo various stages of being "official" or "unofficial" by local standards as it passes through Pakistani, Tribal, Mujahideen, Afghan Interim Government (AIG), and Kabul government territories.

General Characteristics

There are six general characteristics of cross-border roles and interactions of relevance to our analysis: (1) this is big business; (2) roles are based on close, long-term relationships involving trust; (3) cross-border trade is often characterized by territorial domains and brokers; (4) there are many small, competitive traders and transporters in addition to the visible large-scale traders; (5) there is a wheat syndicate originating in the refugee camps; and (6) the system is driven by differences in relative buying power and local prices.

Big Business

Arriving in a frontier town like Peshawar, a naive observer might expect "Wild West" lawlessness and illiterate "tribals." Even a quick study reveals instead a highly developed market system with brokers arranging complex transactions, clearing agents arranging multiparty formal and informal border clearances, and forwarding agents crossing the intervening "no-man's land." As for the "tribals," some have branch offices in Hong Kong and Singapore, with foreign currency accounts in New York and Tokyo.

Most of this big business is outside of our scope of work, as the

majority consists of manufactured goods transshipped through Pakistan to Afghanistan and returning unofficially. Our study, is limited to foodstuffs, agricultural inputs, livestock, and fuels — primarily direct exports to Afghanistan. Nevertheless, the same actors and relationships are often involved in both types of business, hence their importance to our analysis.

Close, Long-term Relationships

Throughout this market system, roles and interactions are based on close, long-term relationships and complete trust. Often the families of big Pakistani traders and their Afghan partners have worked together for generations. These, in turn, have close relations with transporters and brokers who arrange the details of documentation and movement of goods.

The "big business" of smuggling through the Tribal Areas near Peshawar is said to be based on close relations between Pakistani Political Agents and several important families of the Shinwari and Afridi tribes. These families often broker permits for non-tribal traders with whom they maintain close relationships.

Essential to mutual trust in this context is that all parties keep specific trading arrangements confidential. A Peshawar miller interviewed by the research team, for example, kept a list of purchases by permit holders (tribals buying flour to take into Tribal Agencies and from there to Afghanistan), but telephoned for transportation costs without revealing their names. Similarly, a Political Agent interviewed had figures on permits issued, but did not disclose them.

Fundamental to the Pashtunwali Code, the value system which underlies these interactions, is the sacredness of one's word of honor and the redress of infractions through tribal revenge. In practice, however, with the prevailing war and lawlessness, such values must be reinforced by close, long-term relationships.

Territorial Domains

Territorial Domains are most evident in Tribal Agencies, where only resident Tribals can obtain permits to import goods. Similarly, on the Pakistani side, border police posts require "tips," and on the Afghan side, Mujahideen Commanders levy "taxes" for traders passing through their areas. Such territoriality is traditional in Pashtun and Baluch culture, where "levies" (escorts) historically ensured the security of transients because if they were killed, an inter-tribal feud would result. Under wartime conditions, this general practice has expanded. Transporters report up to five or six payments required on each side of the border.

Aside from geographical considerations, the combination of the need for

close, personal relationships with mutual trust and the unofficial nature of the trade has resulted in the development of a highly articulated system of brokers, each with his own special contacts. Afghan transporters ply specific routes into their home territories where they maintain good relations with local commanders. Many Afghan traders prefer to buy at the border, leaving it to Pakistani traders to maintain the necessary relationships with tribals and border police on their side.

In economic terms, cross-border trade is characterized by high and increasing market segmentation, a tendency which inevitably increases costs.

Many Competitive Small Traders

Cross-border trade for our listed commodities (primarily goods coming into Afghanistan) is not concentrated in just a few hands in normal times. It represents a truly competitive market system overall, even though certain regional routes may fall under the sway of a single tribe or syndicate. The supposed Shinwari and Afridi syndicates, for example, do not seem to dominate this trade, at least during times of peace, because the major routes are modern, maintained highways not under their control, and because the availability of alternate routes prevents the establishment of monopoly prices in single submarkets or routes.

The effective closing of the main road to Kabul due to the Jalalabad siege, however, has disproportionately curtailed activities of the big traders, increasing market segmentation, increasing the influence of tribal syndicates, and apparently allowing local monopoly pricing. This reduced competition has come about because traders and transporters must now seek out secure alternate routes where they maintain good relations with "the powers that be", including local tribesmen and Mujahideen commanders, who in effect charge a monopoly rent for passage rights.

Refugee Camp Wheat Syndicate

Donated wheat appears to be exported to Afghanistan from Peshawar refugee camps by a syndicate of refugees maintaining close relations with the appropriate Pakistani officials. A Shinwari trader who smuggles goods into Pakistan complained that his group was excluded from the trade in wheat to Afghanistan, apparently because he was not a part of the narrowly kinship-based syndicate. From the small degree of detail we were able to gather concerning these operations, they do not appear to materially affect the supply or price of wheat either in Pakistan or Afghanistan.

No information was obtained directly from the refugee camps in this phase of our research. Further study of this situation is proposed for Phase II (see Chapter VII). Possibilities to be examined include rebagging operations and the milling of donated wheat into untractable flour.

Buying Power

As would be expected given the open market character of cross-border trade between Afghanistan and Pakistan, the driving forces have been price differentials and differences in relative buying power. Traditionally, both these conditions have supported trade in agricultural products between the countries, often leading to exports from Afghanistan to Pakistan. Currently, price differentials in foodstuffs strongly favor trade from Pakistan into Afghanistan, and will continue to do so as long as strategic items (e.g., wheat) are price-subsidized in Pakistan and are not being produced in sufficient quantity in Afghanistan. The ultimate constraint in this system may prove to be buying power within Afghanistan, since very little is being produced there for export and no immediate source of foreign exchange has appeared, aside from prospective foreign aid.

Official Exports by Pakistan

Of the commodities specified for consideration in this phase of research, only fruits, agricultural implements, fish and eggs are currently permitted to be exported by Pakistan. Figure II-1 diagrams the major roles and interactions involved in official imports to Afghanistan from Pakistan. Segmented roles are indicated to represent essential interactions. Often, one person will enact two or more roles. For example, clearing and forwarding agents are often one and the same, and many forwarding agents function as money changers as well.

Trading interactions can be classified into three geographically-determined stages: activities inside Pakistan, cross-border activities, and activities inside Afghanistan. Crossing the border involves the most interesting variation in actors, roles and interactions, and constitutes the primary focus of this study.

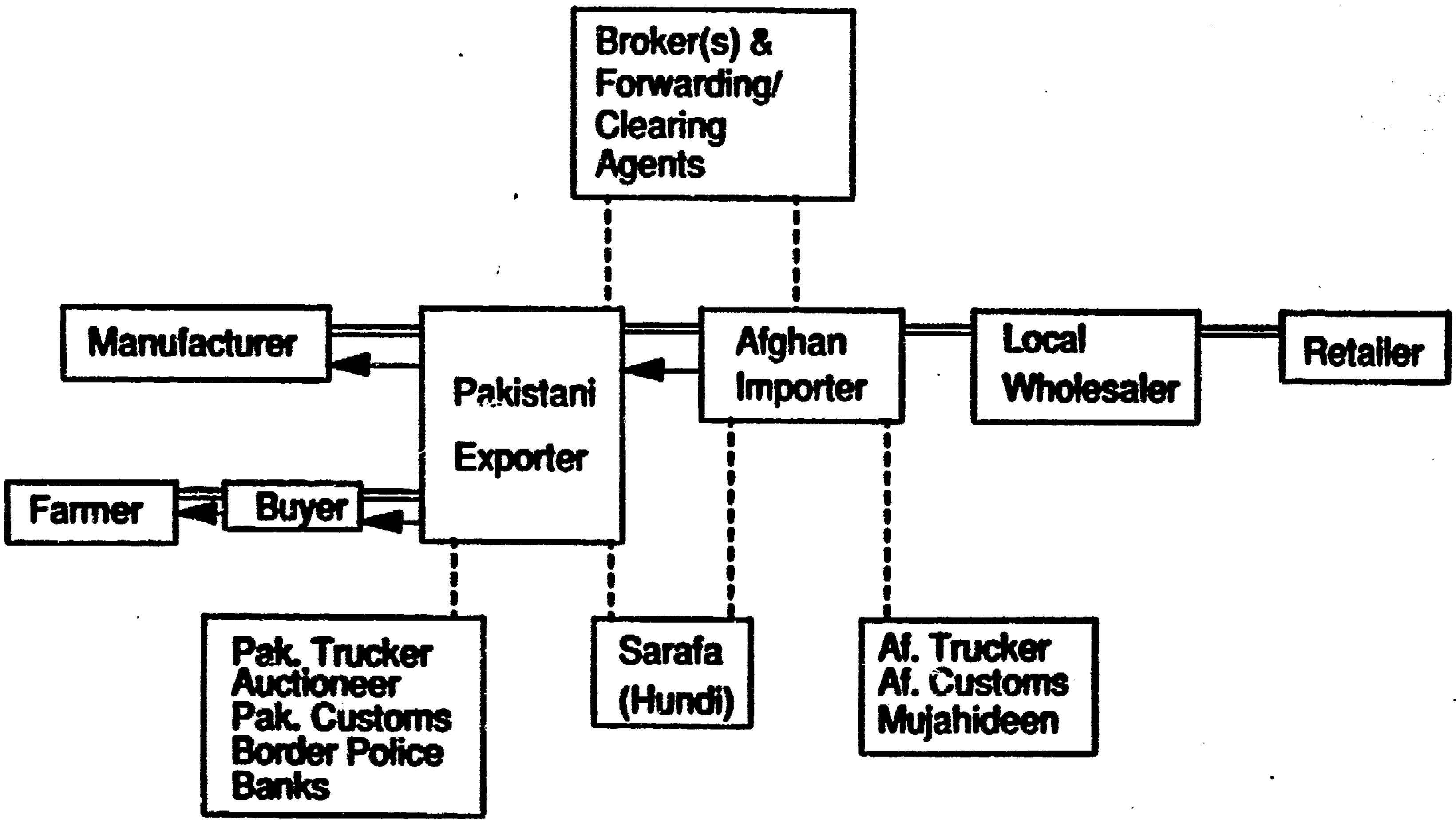
Inside Pakistan

Large-scale Pakistani exporters and their associated Afghan importers jointly constitute the hub of official exports to Afghanistan from Pakistan. Their chief function is providing the financing and access to goods. Exchanges are made by <u>hundi</u> (and banks in pre-war times), but are essentially self-financed. These patrons also coordinate the efforts of various smaller actors carrying out specific tasks.

Both the Pakistani exporter and the Afghan importer usually reside in Peshawar or Quetta and work closely together. The Afghan invariably has a relative, friend or employee in Kabul to arrange for customs clearance (which involves payment in advance) and to receive and market goods.

Figure II-1

Official Exports From Pakistan *



* The symbol ═ indicates taking possession of the goods.
The symbol ◄— indicates that credit may be extended.
The symbol - - - indicates facilitating/intervening actors.

Large-scale exporters prefer to buy in Peshawar or Quetta from purchasing wholesalers. They often have various buying agents who act as "stringers". These agents purchase products at the farm or factory, package and bulk them, and arrange transport to the wholesale markets of Peshawar or Quetta. Exporters may provide credit to the buying agents, or even more directly to the farmers or manufacturers. They may, for example, purchase a farmer's crop in advance or provide him with inputs such as seed, fertilizer and agricultural chemicals.

For products such as fruit and livestock, where quality varies considerably, an auctioneer located in the wholesale market brokers the purchase of truckloads by exporters or other wholesalers.

Crossing the Border

Large exporters usually work through clearing and forwarding agents who, in turn, deal with customs officials and the border police to obtain the necessary clearances. Needless to say, the proper working relationships and expected "tips" are fundamental to successful transactions.

Most Pakistani exports currently crossing the border officially are not on our prescribed list of commodities, including legal transhipments which are later illegally smuggled back across the border. Consequently we do not address the trading arrangements for officially sanctioned goods in any detail.

When the road through Khyber pass to Jalalabad and Kabul was open, transporters carried official items direct from Peshawar very economically on one truck, without off-loading and on-loading (See Chapter III.) Currently, however, with this road essentially closed and almost all goods restricted, trade is conducted largely unofficially at considerably increased costs.

Inside Afghanistan[2]

For trade involving items intended to enter Kabul, such as tractors or threshers, traders reportedly often pay Afghan customs (which are low) to become "official" and increase security within Afghanistan, even when their goods exit Pakistan unofficially. These customs must be paid in advance in Kabul and need not to be paid on goods such as food intended for Mujahideen markets outside Kabul.

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2. Information for this section was gathered entirely from interviews with recently-returned monitors of cross-border aid programs, largely those from Afghanaid (see Appendix D), and therefore must be considered preliminary. This Phase I report is not intended to explore Afghan-side information in depth.

Traders must also pay "taxes" to the Mujahideen through whose territory they pass. Payments reportedly range from Af 5,000 to Af 10,000 per truck for the entire trip. These payments take place in increments of Af 1000 to Af 2000, occurring from one to six times per trip depending on the final destination.

Pakistani trucks legally can, but usually do not, go inside Afghanistan. There is an advantage in using transporters from the destination area who are on good terms with the local Mujahideen, and these drivers sometimes claim exclusive rights over their territory. Thus, the most common current pattern of transport is off-loading and reloading at the border. Such reloading may be demanded again at other territorial boundaries. Sometimes permission to drive through can be obtained by paying local transporters for the privilege. In particular, this tendency has been noted in North Waziristan.

Many Afghan traders prefer to purchase goods at the border, leaving Pakistani tribals to arrange affairs with the tribes, Political Agents and Border Police on their side. The price of typical goods at the border is said to be only about 3 percent higher than in Peshawar.

Another type of informal trade is carried out by the Kabul Government and at the Mujahideen level. The Kabul Government is reportedly trying to supply goods through tribal commanders in the urban areas and in all major cities. The Mujahideen groups have set up bazaars outside all major cities for provision of essential commodities. Wheat flour, rice, vegetable oil, kerosene, and cigarettes, are purchased from the Pakistan side and taken to these bazaars. The objective is to gain support in these areas in the hope that the populace will become more favorable towards the Mujahideen. The rural areas have had better access to these items, as U.S food and other bilateral assistance has been in process since 1980.

Pakistani food products are usually sold to wholesalers in Mujahideen markets. Observers report that the two largest of these markets near Kabul are Durani in Maidan Shahr, Wardak (about 40 kilometers southwest of Kabul) and Siya Khak in the Jalrez area of Wardak, near Bamiyan (about 80 kilometers west of Kabul).

Durani is reported to be somewhat unstable, having been initiated only six months ago, and there has been fighting in the marketplace between several parties. Both the Mujahideen and the AIG have cut the road between Durani and Kabul, reportedly desiring to prevent goods from supplying the government controlled population in the capital. Observers report that commanders from Kabul appealed, however, and the road is now open two days per week (Monday and Tuesday). Commanders also issue special notes for the needy to permit them to obtain supplies on other days.

Siya Khak was severely bombed last year, but is now apparently back in full operation: the merchants are very industrious. Observers report seeing

them building new truck bodies from the remains of those which have been destroyed.

In the first week of June, both markets were reportedly well stocked with food from Pakistan. Ample wheat flour and vegetable ghee were available, though prices were very high (see Table II-1). Monitors from Afghanaid noted that there was so much wheat flour in Siya Khak that traders built rooms from the sacks and lived inside them. It was not clear what proportion of this excess was donated wheat, but all of the food was from Pakistan, except for soup from Kabul. However, no fruits and vegetables were observed. There were also Japanese and Russian non-food items.

Fertilizer was reported in both markets, but it was from the Soviet Union. No seed was reported for sale. Some seed had been delivered by voluntary agencies, but not by private traders. Petrol and diesel fuel were reported to be occasionally available in Siya Khak, but the supply is not regular.

Observers report that market conditions are different in the border areas south and east of Kabul as compared to these to the west. In areas such as Kunar province (which is completely Mujahideen controlled) the economy is reportedly so closely tied to the Pakistan economy that even the currency used is the Rupee, and all Pakistani items are available on that side of the border.

Goods normally come to Kabul via Logar. However, the Mujahideen have closed the road from there to Kabul for transporting food, although buses still transport people. The other major route, via Azam Warsak, was not used during the first two weeks of June because of fighting. When these data were double checked at the end of June it was found that the Azam Warsak route had opened up, but that the Mujahideen had just closed the Teremangal road. It seems that any such specific descriptions of conditions will have very limited applicability over time. The best generalization is that Afghan traders are very resourceful and will find a way to maximize trade within wartime restrictions.

During this week, the AIG reportedly issued ration cards to people in Kabul for the next three months, bringing prices down slightly. Wheat flour, for example, started at AF 820-830 and fell to AF 800. Some of these goods make their way into two Mujahideen controlled markets within Kabul — the Gulbeden and Alliance Markets.

At these Mujahideen markets, the importing wholesalers sell to local wholesalers who will, in turn, sell to retailers. Each of these traders adds on his margin. Before the war, traders estimated transportation costs at 20 percent and profit margins at 10 percent, based on the Peshawar price. Under current conditions, however, with goods transported over longer and

Table II-1. Price of Food in Markets Around Kabul on June 5, 1989[a]

(Market price in Afghanis per kilogram)

	Wheat	Ghee	Rice	Tea	Sugar	Barley	Maize	Meat	Oil	Lamp
Large markets										
Siya Khak (80 km W)	100	400	229	1,600	280	100	—	600	200	750
Durani (40 Km SW)	92	345	250	—	258	—	—	400	150	—
Jalrez (50 km W)	108	362	210	1,530	300	75	—	460	200	600
Small markets										
Katah Usra (30 Km W)	102	450	235	1,570	230	86	—	450	—	—
Dar Sarai (70 Km W)	115	380	200	2,000	280	86	—	600	200	700
Katah Sangai (in Kabul)	122	486	215	1,500	320	—	100	600	120	—
Pul Mehrab (65 Km W)	123	400	115 -243	—	300	—	—	450	200	600

a. Source: Afghanaid
b. 13 Afghanis = 1 Rupee
c. Oil price is per liter

much rougher roads under riskier conditions, transportation costs are three to six times previous values. Profits are based on the final selling price, and are, therefore proportionately higher.

Table II-2 shows estimates from two observers at one voluntary agency which provide a preliminary breakdown of wheat flour prices in these markets by their various components. The figures should be considered indicative rather than precise. Both the Peshawar and Afghan prices vary, and there is considerable uncertainty about the level of Mujahideen taxes. Also, the high transport costs reflect "insurance" considerations due to the risks as well as actual fuel expenses.

Table II-2. Approximate Components of Price of Pakistani Wheat Flour Near Kabul (June 5, 1988)

	Afghanis per Seer	
	Estimate 1	Estimate 2
Price of Wheat Flour in Peshawar	200	250
Transport costs (including depreciation of vehicle)	250	250
Mujahideen taxes	150	50
Transporting trader's profit	150	150
Bazaar trader's profit	100	100
Total	850	800

Unofficial Exports to Afghanistan

Figure II-2 outlines roles and interactions for unofficial exports to Afghanistan. This chart is roughly equivalent to Figure II-1 above, with a few significant differences. First, more small, tribal traders are engaged in unofficial trade and large-scale traders account for a smaller proportion of the market. Formal traders are often involved in informal trade as well. Second, tribals play an even more important role in unofficial trade. Even for official trade, brokers are most likely to be tribals, but for unofficial trade tribal connections become absolutely necessary. Only registered tribesmen can obtain permission to take goods into the tribal areas and provide security of transit. Traders, whether tribal or not, provide the know how, telephone, telex facilities, transport, and other facilities. Some tribal groups (on both sides of the border) are supportive of the Kabul Government and allow goods to go through to Kabul.

A third difference between the two trading schemes is that, for unofficial trade, Political Agents replace Customs Officials as the authority granting powers with whom close relations must be maintained. These Agents issue permits to transport goods into the tribal areas. They can issue as many permits as they wish per day. Beyond this point there is only limited official monitoring as to whether or not goods cross the border. There are, of course, border police posts at which "tips" are expected. There is apparently no control or accountability on the expenditure of the political agent whose budget can sometimes be as large as that of a Secretary to the Government. For trade going through the Khyber Pass from Peshawar via Torkham, the Shinwari and Afridi tribes have reportedly developed syndicates with a virtual monopoly on "close relationships" with their Political Agent. Smaller tribal traders usually work through them to obtain their permits.

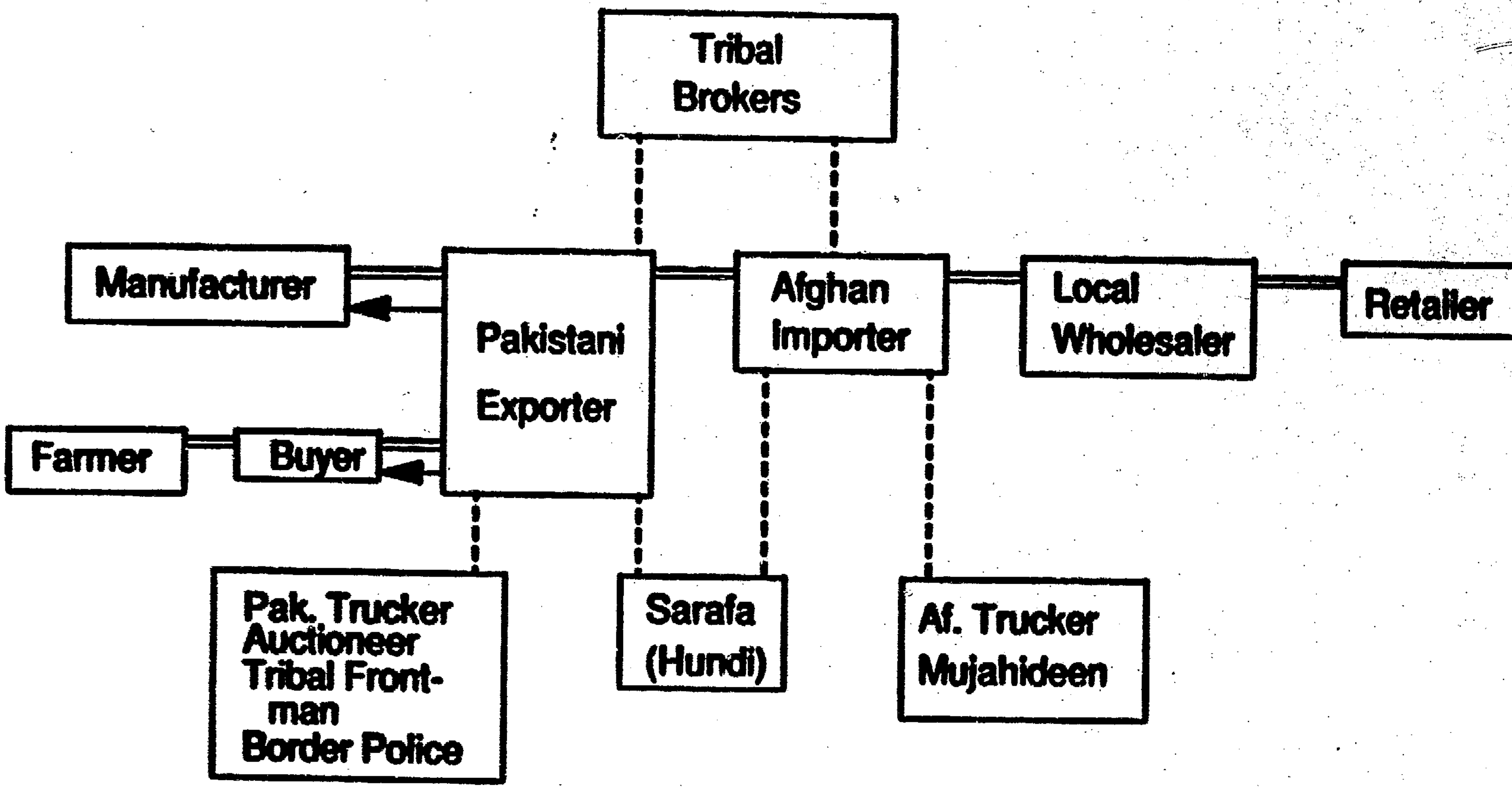
Unofficial trade is partly "state sponsored" or at least "state tolerated." Assessment of the activity by various observers varies from "not so significant" to "very very significant". Few attempts had been made to asses unofficial trade in quantitative terms, but the Political Agents reportedly keep official (but confidential) records of unofficial trade volume.

As a final observation on the differences between official and unofficial trading patterns, it is not necessary to have contacts in Kabul and to negotiate arrangements in advance for unofficial trade. Afghan customs need not be paid for goods not intended for Kabul-controlled areas, and often truckloads can be sold to Afghan importers at the border with no previous arrangement.

Imports to Pakistan from Afghanistan

Imports to Pakistan from Afghanistan are primarily fruits, nuts, and animal hides, and can be either official or unofficial depending on where

Figure II-2
Unofficial Exports to Afghanistan *



* The symbol ═ indicates taking possession of the goods.
The symbol ◄— indicates that credit may be extended.
The symbol ---- indicates facilitating/intervening actors.

they cross. Fruits coming from Afghanistan are generally temperate products, while those going from Pakistan to Afghanistan are mainly sub-tropical and tropical. Fruits are exported from Afghanistan either fresh or dried. Wartime disruptions, roundabout routes, and longer transport times have resulted in a higher proportion of dried fruit exports. A good deal of this trade is transshipped across Pakistan to India.

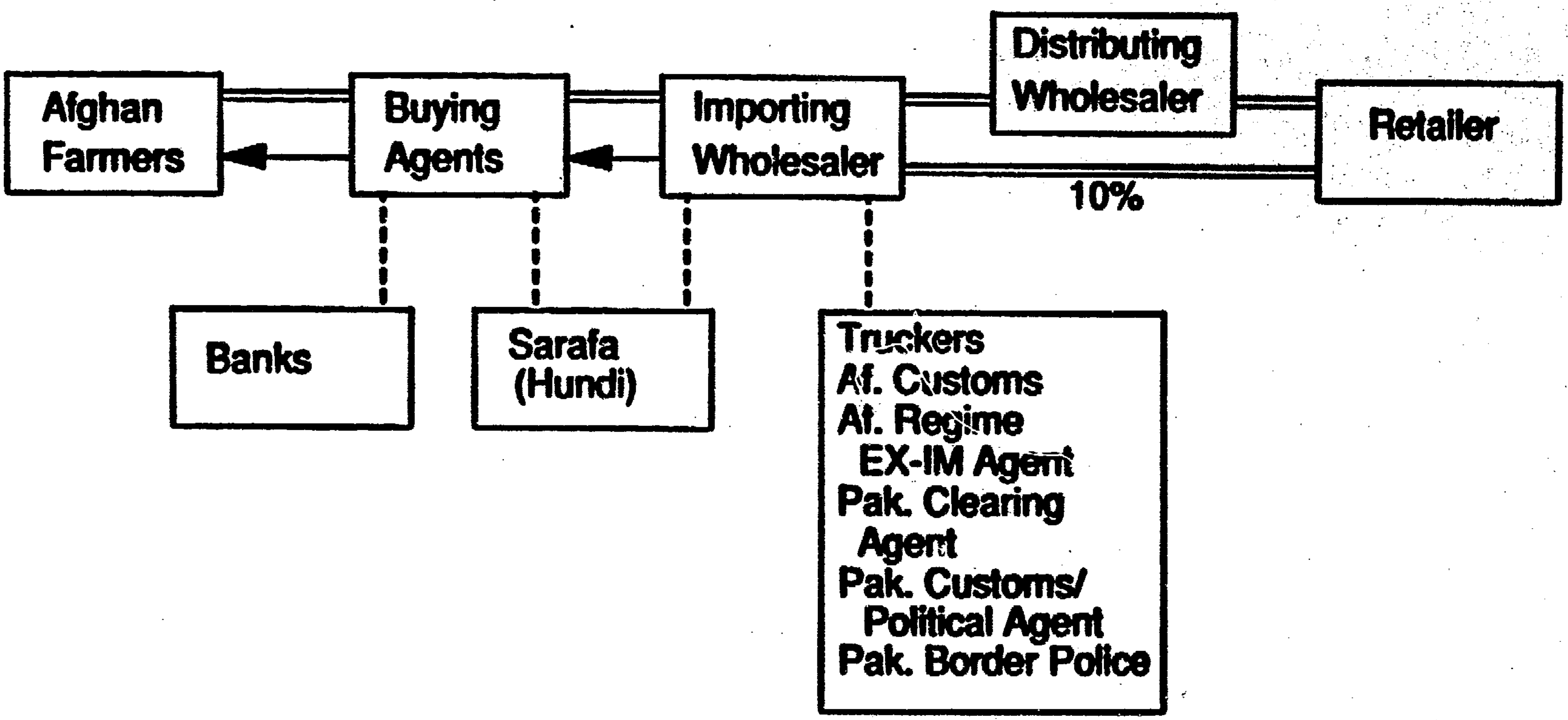
Figure II-3 indicates the roles involved in importing from Afghanistan, the most important of which is the Pakistani importer. He provides financing and makes customs arrangements, and may issue credit through the Afghan buyer to the fruit growers in Afghanistan. This advance financing is usually effected by purchasing the crop in advance. In practice, however, the Afghan middleman may not immediately pass on these funds to growers as intended. One such Afghan grower reported that payments were, in fact, always one year behind.

One interviewee reported that a few Pakistani importers controlled a major portion of the fruit importing market and thus influenced prices. Further quantification and clarification of this situation will be sought during Phase II.

Banks are indicated as an alternative to the hundi System for financial transactions. At least Afghan banks were often used before the war and are included here because they could be significant again in peace time. Currently, most financial transactions are conducted via the hundi system.

Figure II-3

Food Exports From Afghanistan -- Official or Unofficial *



* The symbol ═ indicates taking possession of the goods.
The symbol ◄— indicates that credit may be extended.
The symbol - - - indicates facilitating/intervening actors.

III. TRANSPORTATION

This chapter presents an overview of the cross-border transportation system between Afghanistan and Pakistan, based on data collected entirely in Pakistan, without access to the tribal areas or to Afghanistan. We describe existing transport operations and the existing road network, present estimated freight rates, and review the prospects for carrying out a transport demand analysis.

The Afghan component of the cross-border transportation system has been very seriously affected by the war. Many roads and bridges have been destroyed or mined, requiring the opening of alternative routes. Consequently, many vehicles have reportedly been damaged, while others are underutilized, awaiting a reopening of usable routes. Those currently in operation have a very low expected lifetime, as evidenced by the high depreciation rates and "self-insurance" rates typically included in the pricing of transportation services by vehicle owners (see Chapter II).

Our basic conclusions are that (1) poor road and security conditions have increased freight rates considerably and (2) the existing truck fleets are sufficient to meet foreseeable future demand, current levels of damage and depreciation notwithstanding.

Transport Operations

Modes of Transport

Our interviews revealed three standard modes of cross-border transportation currently in use for private sector trade: animal power, human transport, and linked trucking arrangements.

Limited amounts of goods are carried by mule, donkey or camel caravans over the border into Afghanistan. In "normal" times, prior to the siege of Jalalabad, this sort of transport was typically a bulk-breaking operation: goods were transported to the border area in bulk and then broken into smaller lots. They were not rebulked and transshipped once they

reached the other side, but were transported onward in the same small lots. Currently it appears that there may be considerable rebulking on the Afghan side of the border: animal transport is temporarily being used as means of circumventing closed major routes with large loads, which are "recomposed" on the Afghan side and shipped onward.

In addition, many other goods — the transhipped goods whose trade is described in Chapters II and VI — are also brought back into Pakistan by animal transport, but these products are largely manufactured items not included in our assigned commodity groups (food products, agricultural inputs, and fuel). One would expect that high value items and goods prohibited for import into Pakistan would be shipped in this manner.

Livestock is walked across the border in both directions, though largely into Afghanistan and largely for slaughter. Prior to the Jalalabad siege, trucks reportedly predominated even for this transportation. Currently, however, cattle, buffalo and an occasional herd of sheep are walked across along any of the numerous informal routes around Quetta and between Parachinar and Torkham. This traffic tends to be seasonal, increasing considerably prior to holy days which include animal sacrifices. Due to the continuing difficulty of farming in Afghanistan, few of these animals are used as traction or breed stock.

Some travelers walk across the border both at the formal border crossings and along the approximately 1600 passes into Afghanistan, carrying extra goods, including wheat flour, vegetable oil, kerosene, sugar, tea, and other items. Tribesmen are allowed to cross the border unhindered with any amount of cargo they can carry themselves. The total amount of such transport, however, cannot be significant, due to the limits off human physical capacity and the size of the population.

Trucking is certainly the predominant mode of cross-border transportation in this region. Our interviewees report that 20-ton trucks tend to predominate on the good roads but that smaller 5- to 10-ton trucks and even pick-ups are in use over the temporary routes created due to war conditions. Other respondents indicate that heavy trucks are also used on these secondary routes, usually with smaller loads. As indicated below and in Chapter II, goods are currently rarely transported from origin to destination in the same vehicle. Because of varying road conditions and political arrangements, several linked trucks and routes are typically involved in any transport activity.

A more complete definition of cross-border transport traffic composition will be carried out during Phase II of this study.

Shipping Arrangements

Since the research team did not carry out interviews or observations on the Afghan side of the border, our view of the state of the distribution system for imported goods is incomplete. Even prior to the Soviet invasion, however, the route linking, warehousing, bulk breaking, and transhipment facilities in Afghanistan were quite rudimentary. Our partial data indicate that the system has not improved and that practices are now even more haphazard and fragmentary.

Currently, most truckers are hired by wholesalers or clearing and shipping agents to carry goods unofficially into Afghanistan through the tribal areas. Consequently, many truckers tend to be tribals originating in these areas, even for official exports. Each trucker generally owns between one and three vehicles and employs drivers and one or more assistants for each. They do not generally own the goods they carry. Though not employees, they tend to sell their services to traders or agents they have known for some time. Many interviewees indicated, however, that non-tribal Afghans carried out most trucking operations on the Afghan side of the border.

Some interviewees indicated that, due to the poor road conditions, even 10-ton trucks tend to carry only 5 tons of goods. However, we directly observed several 10-ton trucks fully loaded for shipment over the border, for which reason we conclude that loading practices are not currently standardized.

Several truckers interviewed by the research team reported delivery to locations far inside Afghanistan while others reported delivery to border towns. The extent to which goods are transferred to other vehicles from these towns further inland is unclear, leaving the current state of the route linking system in doubt. Interviewees have confirmed, however, that Pakistani vehicles are often off-loaded at the border, with the goods reloaded onto similar-sized Afghan trucks. At the same time, trucks with Pakistan license plates reportedly can and do legally circulate within Afghanistan. All loading and unloading is done manually.

On the basis of our incomplete interview results, then, it appears that Afghan shipping arrangements and the distribution system in general are not operating on a stable or standardized basis. Truck loading, route linking, and load transfer all seem to respond to <u>ad</u> <u>hoc</u> conditions.

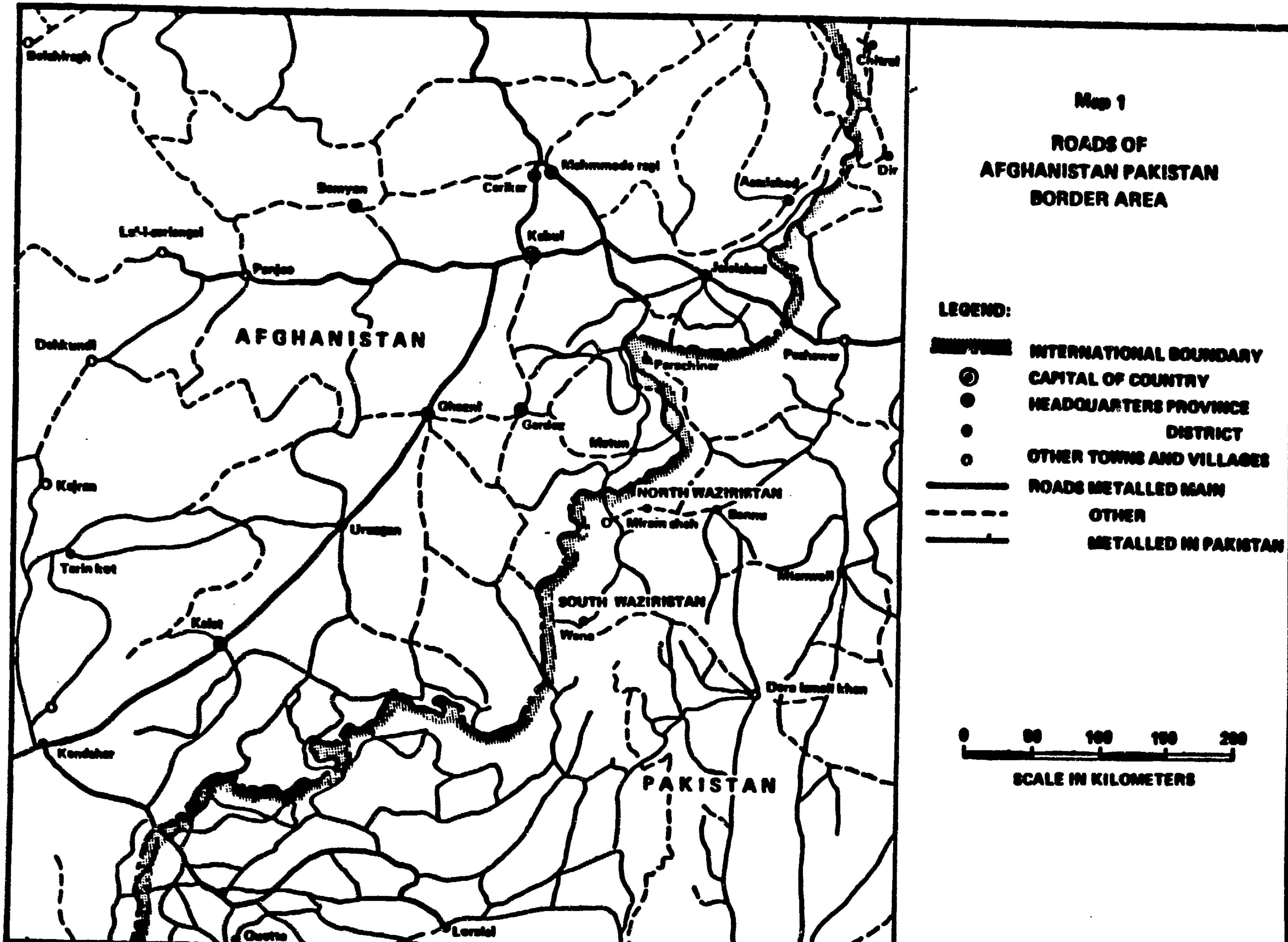
The Road Network

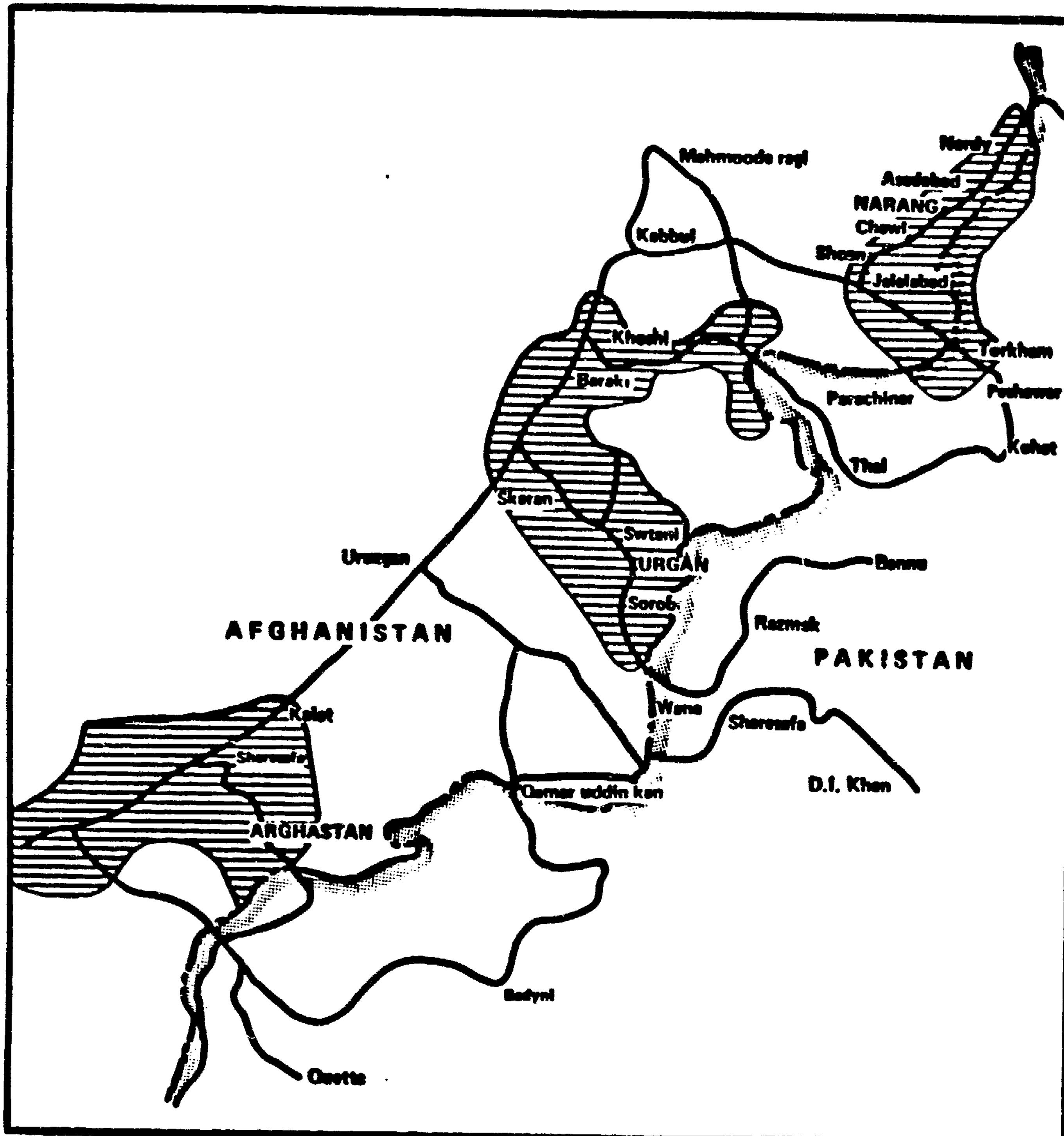
As is the case with most other elements of cross-border trade, the utilizable road network between Afghanistan and Pakistan is in a state of flux. Since the Jalalabad siege, beginning in October 1988, the prior major routes between Khyber Pass and Kabul and between Kandahar and Kabul have been closed, often due to mining and air surveillance by the Kabul government. Consequently, alternate routes (respondents hesitate to call them "roads") centering on the Parachinar area have been opened.

Map 1 presents the border area route network of both countries prior to the war. This map combines several formerly noncomparable maps which originally had differing scales and place names. It does not reflect changes resulting from the war, but does show some of the currently used routes and all the prior routes.

Map 2 shows what our interviewees have reported to be the most important cross-border routes being used at present. Even this depiction of utilizable routes, however, is not definitive: a significant and changing group of road segments is not usable because of intensive mining. With this reservation in mind, however, the key routes currently being used can be listed, from NE to SW, as follows.

- Dir — border — Ngray — Asadabad — Narang — Jalalabad
- Peshawar — border (with Konar) — Narang and other Konar destinations
- Landi Kotl (a kotal)
  Peshawar — ~~Koti Lodl~~ — border — Torcham — Jalalabad (currently reported to be closed)
- Peshawar — Parachinar — border — Nesarak — Sorobay — Mahmood e Raqi — Kohistan (North of Kabul)
- Peshawar — Parachinar — border — Khoshi — Baraki — near Sad (South of Kabul)
- Peshawar — Teri Mangal — border (with Paktia) — Kotgai — Lohgar province
- Peshawar — Wana — border (with Paktika) — Bamal — Urgun — Skaran — Ghazni — Wardak — Maidan — Bamyian — Baghlan
- D.I.Khan — Jandola — Asan Warsak — border — Gamal — Khosmara — Mogur (thought to be less important)


Map 1
ROADS OF
AFGHANISTAN PAKISTAN
BORDER AREA
LEGEND:
INTERNATIONAL BOUNDARY
CAPITAL OF COUNTRY
HEADQUARTERS PROVINCE
DISTRICT
OTHER TOWNS AND VILLAGES
ROADS METALLED MAIN
OTHER
METALLED IN PAKISTAN
0
50
100
150
200
SCALE IN KILOMETERS
AFGHANISTAN
PAKISTAN
NORTH WAZIRISTAN
SOUTH WAZIRISTAN
Chitral
Dir
Kabul
Jalalabad
Peshawar
Parachinar
Ghazni
Gardez
Matun
Bannu
Wana
Dera Ismail khan
Kajran
Tarin kot
Kalat
Kandahar
Quetta
Loralai
Dehkundi
Panjao



Map 2

MAJOR CROSS BORDER ROUTES

LEGEND

SURVEY AREAS

MAJOR CORRIDORS

0 50 100 150 200

APPROXIMATE SCALE IN KILOMETERS

- Quetta — Chattan — Kandahar or, when detours required,
- Quetta — Badyni — Quamaraddin Karez — border — Wazakhwa — Khosmara — Mogur or
- Quetta — border — Arghastan — Sharesafa

Routes bordering Iran are not included here, since their analysis falls outside the scope of this project.

No complete, reliable information is currently available concerning the condition or traffic capacity of these routes. O/AID/REP has contracted Mr. Ghulam Ahmed Nasir, of the Afghan Society of Architects and Engineers (Peshawar) to complete, with the assistance of the AID/REP Engineering Adviser, a Road Damage Survey by August 31, 1989. This study is being carried out using a uniform reconnaissance field survey form designed to produce damage assessment and repair estimate reports.

Freight Rates

Estimated freight rates, based on field interviews, are shown in Table III-1. Since they do not include responses from Afghan-side participants in the transport system, however, they should be taken only as preliminary estimates of current costs. A more detailed analysis, based on extensive, cross-checked interviews, will be proposed for Phase II of this study.

The key factors in determining these freight rates appear to be road conditions, size of vehicle and acceptable load factor. For a given vehicle size and load factor, current road conditions result in freight rates three times higher than those under normal or good conditions. This rate should be multiplied by an additional factor to take vehicle size and acceptable load into account. As mentioned above, the data collected were insufficiently detailed to determine vehicle-type distribution by route and road condition, which would be required to calculate this latter factor. However, certain interviewees indicated a size/load factor of 2, which would imply rates 6 times those which would prevail under normal conditions.

If so requested by O/AID/REP, during Phase II of the study, current road damage could be compared with reported shipping rates and vehicle operating costs developed by AID/Pakistan contractors (including studies completed in recent years by members of the research team) to estimate variations in shipping costs over major routes and likely changes under different scenarios.

Table III-1. Illustrative Freight Rates from Peshawar to Afghan Destinations, June 1989

Destination	Rupees per metric ton	Vehicle	Conditions	Source
Ghazni	3,000	5-ton load	current	VITA
Kunar	1,000	5-ton load	current	VITA
Logar	2,800	5-ton load	current	VITA
Sorobi	3,200	5-ton load	current	VITA
Wardak	3,400	5-ton load	current	VITA
Waza Khwa, Paktika	2,600	5-ton load	current	VITA
Kabul	3,200	5-ton load	current	VITA
Kabul	1,000	5-ton load	current	Implement trader
Kabul	300	20-ton load	normal	Implement trader
Kabul	1,500	10-ton load	current	Afridi trader
Kabul	500	10-ton load	normal	Afridi trader
Torcham	100	10-ton load	current	Afridi trader

Source: Field interviews.

Little information is available at present on existing traffic over the major cross-border routes. Without direct counts, information could be obtained from staff of other AID. contractors who have recently travelled there. "Windshield" counts of such traffic will be proposed for Phase II. However, actual flows would tend to shift considerably once road and security conditions have changed in each region.

Transport Demand

The objective of a cross-border transport demand analysis at this point should be to help prioritize prospective repair and maintenance activities under existing and future traffic scenarios, assuming that much of the traffic would shift to other routes once road and security conditions were improved. An engineering analysis could possibly provide an indication of priorities based upon field observations and current, very preliminary traffic information. A transport demand analysis, however, might realign priorities based on prospective changes in transport requirements.

An alternative means of transport demand analysis was employed by the research team for the study of the Afghanistan Construction and Logistics Unit ACLU), carried out under the same contract as the present study.[3] In order to estimate future transport demand during any prospective repatriation, the ACLU research team

Insert summary of methodology and conclusions from Delivery Order #3 report

3. See "Expansion of the Afghan Construction and Logistics Unit", by Richard Gibson and William Griffith.

IV. MEANS OF FINANCE

This chapter identifies and describes the means by which cross-border trade between Afghanistan and Pakistan is currently financed. We address both formal and informal financial mechanisms, and we cover financial activities in both the restricted sense as a provision of capital over time and the broad sense as a provision of means of payment, including provision of non-cash instruments and of foreign exchange. Due to the restricted nature of formal finance in this field of trade, and due to the semi-legal nature of much informal finance, we are unable to offer estimates of the volume of financial activity involved in Afghan-Pakistani trade during this phase of the study. Indirect estimates may be possible during Phase II.

The first section of this chapter describes the limited set of available formal financial mechanisms, while the second section describes the much more extensive and flexible informal system. The third section addresses what many interviewees considered to be the most important means of payment for international trade: self-finance. Although the general conclusion of this component of our study is that the existing financial system is effective and is capable of servicing any likely increase in trade volume, the fourth and final section of this chapter does point out one possible functional problem: the instability of the current value of the Afghani.

Formal Banking

Commercial banks in Pakistan, and to a lesser extent in Afghanistan, may finance foreign trade in three ways: (1) direct export-import payments; (2) secured personal loans; and (3) general purpose business loans. All three reportedly have been used to a limited extent.

Direct Import-Export Loans

Pakistani banks issue direct financing for international trade only via fully backed Letters of Credit (LCs) and only in U.S. dollars. Afghan banks have historically been more accommodating, issuing Letters of Credit on partial financing for many currencies. They still do so for imports from the Soviet Union, with only a 30 percent advance, but beginning in 1983 they have required 100 percent advance payment for LCs financing imports from other

countries, including Pakistan. This situation, of course, has limited formal import-export trade to those willing and able to pay full costs in advance.

All respondents to our Phase I interviews, including both large and small exporters and brokers, replied that they did not currently use these formal means of finance for exports to Afghanistan, an observation backed up by our interviews with Pakistani state bankers in Peshawar. Even goods transhipped through Pakistan to Afghanistan from other countries, once an exception to this tendency, are now financed by other means. On the other hand, the larger, legitimate businessmen stated that they had carried out trade through Afghan banks prior to the war and hoped to do so again once reasonable credit terms are re-established.

Statistical series available from the State Bank of Pakistan at the time of this writing indicate no separate category for foreign trade loans or LCs, although there exists a series labeled "bank advances to foreign constituents". It has shown a marked decline in the past five years, from .5 percent of total advances to effectively zero. This evidence, to be confirmed by later interviews and research, supports our preliminary conclusion that direct formal finance of Afghan-Pakistani trade is virtually nonexistent.

Secured Personal Loans

Several of the larger, more legitimate exporters and brokers we interviewed reported using bank loans, secured by personal collateral, for the finance of export activity. In at least one case, such loans are taken out by wholesalers to finance agricultural producers, both in Pakistan and Afghanistan, for future delivery to the wholesaler. In another variation, businessmen may take out bank loans for other legitimate purposes, yet use the additional liquidity to finance international trade.

The interest rates on such loans reportedly varied from 17 to 20 percent per year, though the sample cannot be considered representative at this point.

Due to the fact that the security for such loans varies and is unrelated to their actual purpose, there appears to be no way to trace their course or volume through the official data published by the State Bank of Pakistan. Further interview data on the scope of this activity should be gathered during Phase II of this study.

Informal Finance

Due to the restrictions placed on formal bank financing, Afghan and Pakistani businessmen have resorted to other, older and perhaps more reliable, means of international payment, based on personal trust and recognizance. Because they require extensive pre-established legitimacy, these means of finance also have their limits, but they seem to be much more accessible than formal bank finance.

The Hundi System

International payments and loans have been made for centuries in this area of the world by means of the hundi system (or hawala in Afghanistan). This instrument is a remarkably flexible means of payment, varying in use from an internal company voucher in its simplest form to an international multiple currency sight draft in its most complex form. Its essential nature, in the vernacular of Western finance, is a "bill of exchange", although it may be used for domestic trading in a single currency.

Basically a hundi consists of an order to a money changer (the drawee) to pay the bearer (the payee) a certain sum in foreign currency from the "account" of the signer (the drawer). Both the drawer and the drawee may be associate money lenders in different cities or countries, in which case the hundi becomes essentially a counter check payable to the bearer. In such cases, this instrument may be endorsed by one or more parties, eventually "clearing" with the drawer, or remaining with the original drawee to be balanced by subsequent transactions. We have received reports of these instruments being honored by international banks in New York and Tokyo.

Figure IV-1 depicts the "classical" hundi transaction, the form in which the system is most often used for Afghan-Pakistani cross-border trade. Typically, an importer in Kabul purchases a hawala (hundi) in Afghanis from an issuing money changer (the drawer) who has an associate in Peshawar (the drawee). The importer then transfers the document (directly or via an agent) to an exporter in Peshawar in exchange for merchandise. The exporter (the payee) then discounts (exchanges) the hundi for Rupees with the Peshawar money changer associated with the original Kabul issuer. Alternatively, the importer or his agent may exchange his own hundi for Rupees in Peshawar, prior to the actual purchase of products for export, then paying for the products in cash.

In simpler cases, the drawer issuing the hundi may himself be an importer and the redeeming drawee may be either an associate money lender or a seller's agent or broker abroad. Such hundis are typically expected to be repurchased by the importer, his money changer, or his agent within a short period.

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Note that, when an importer pays an issuing money exchanger in advance in his own currency for a hundi, he effectively finances his purchase in advance. Later, when the second money changer abroad advances funds in a second currency to the seller, he finances the foreign exchange transaction, again in advance from his perspective. Liquidity is advanced, then, on at least two occasions in the typical hundi/hawala transaction. In addition, occasionally, but reportedly not often, hundis are purchased on partial payment, effecting a loan from the issuing money changer. Both commissions and interest rates on such transactions seem to be fairly high. Interview respondents quoted commissions ranging from 1 to 5 percent, but did not specify interest rates.

In other cases, hundis are non-negotiable orders to pay between very close business associates, usually relatives. The form of business organization involved seems to reduce to a single family-owned multinational trading firm, in which case the order to pay is an internal voucher. This characterization may be an over-simplification, however.

The unifying characteristic of all the forms of the hundi/hawala system is its basis on trust and recognizance between signing and paying parties. No formal accounts of deposit, no fixed-period balancing, and no formal clearing process need be involved. In effect the system performs as an informal banking system, complete with credit creation, store of value, and provision of non-currency media of exchange. In the opinion of most interview respondents, and of the research team, this system is capable of functioning well and supporting any probable increase in Afghan-Pakistani trade, including an increase to pre-war levels.

Semi-Internal Finance

This means of effecting payment and providing short-term loans is similar to the voucher form of the hundi described above, except that no written instrument need be involved, while the degree of trust required is even greater. The procedure was described to us by business associates whose families had dealt with one another across national borders for several generations and who evidently had no fear of failure to pay. Foreign currency is advanced and payment dates are set and extended with no formal documentation of the transaction. Although our respondents acknowledged that prices or exchange rates might vary from their cash levels in such cases, they did not admit that implicit payments of interest might be involved.

We recognize that our impression of this process is preliminary at this point and may well be dropped altogether or merged into the hundi explanation on further analysis.

Self Finance

The implication of the above characterizations, as well as that of most of the interviews conducted by the project team., is that most financing of trade in the strict sense (i.e., the provision of liquidity in advance of purchase) is provided by the purchasers themselves. hundis are most often used as a means of payment rather than an advance source of liquidity; in fact the major advance involved is by the purchaser/importer, who pays cash for a hundi prior to receiving goods, financing his own purchase. On the formal side, direct bank loans and letters of credit for foreign trade are (currently at least) practically impossible to obtain. Afghan-Pakistani trade appears not to be carried out on credit. In no case, however, did our respondents — even the smaller businessmen and smugglers — complain that this condition was a constraint on continued or expanded international trade.

The Stability of the Afghani

During recent months, the Afghan currency has depreciated significantly against the Pakistani rupee and by implication against the U.S. dollar. Table V-1 demonstrates that tendency, presenting the "money bazaar" rates for the afghani/rupee exchange rate and the equivalent afghani/dollar exchange rate. The historically stable afghani has apparently depreciated 62 percent against the dollar over the past year.

The reasons for this depreciation are several and are to be expected during wartime. The Kabul government is obviously paying most domestic expenses via credit creation, since local revenue sources, especially outside the major cities, are nonexistent. At the same time, both legitimate and counterfeit currency is reportedly being added to the system by parties on both sides of the conflict. Added to this situation is the general decrease in public confidence in the afghani due to the lack of perceived legitimacy and influence of the Kabul government.

In more normal times, such an exchange depreciation would probably lead to a significant decrease in trade, as exporters and importers are unable to project with confidence the prices to be received or paid in their own currency. During recent years, however, trade between these two countries has been carried on largely in Pakistani rupees, for two reasons. First, the rupee has been fairly stable in relation to international reserve currencies, being supported by large dollar inflows and a relatively prosperous economy. Second, many Afghan traders formerly operating out of Kabul now carry on trade from Peshawar, Quetta, or Lahore. The denominate their inventory and trade in rupees or dollars, using the afghani only for direct sales inside Afghanistan and converting to rupees or dollars at the first opportunity. For these reasons, the instability of the afghani has not damaged trade between Afghanistan and Pakistan to the extent it otherwise might have, and the

Table IV-1
Recent Exchange Rates for the Afghani
July 1988-June 1986

Month	Trading range		
	Afs/Rupee	Rupees/US$	Afs/US$
July	10.4-10.6	18.15	188.8-192.4
August	10.5-10.7	18.35	192.7-196.3
September	10.5-11.0	18.55	194.8-204.1
October	10.2-10.6	18.00	183.6-190.8
November	10.4-10.6	18.65	194.0-197.7
December	10.6-10.7	19.10	202.5-204.4
January	10.6-10.9	19.30	204.6-210.4
February	10.1-10.5	19.75	199.5-207.4
March	10.3-11.6	20.15	207.5-233.7
April	11.8-13.1	20.45	241.3-267.9
May	13.3-15.2	20.95	278.6-318.4
June	14.3-15.4	21.50	307.5-331.1

Sources: Zarab Sarafa Association; International Monetary Fund.
Note: The Rupee/$ rate quoted is the official rate at month's end.

prospects for expanding trade in the future may still be positive even with increased exchange instability.

Conclusion

Our preliminary conclusion is that the finance of Afghan-Pakistani cross-border trade is adequately covered by traditional means: the need for foreign exchange and instruments of payment is met by the hundi system, and the provision of advance liquidity is covered by self-finance, semi-internal finance, and occasional resort to money changers and hundis. Even the current instability of the afghani/rupee exchange rate is not likely to prevent increased trade, as long as the rupee itself remains stable with respect to international reserve currencies.

V. GOVERNMENT REGULATIONS AND CONTROLS

Historically, trade between Afghanistan and Pakistan has been based on comparative advantages and GOP restrictions, which have encouraged both:

- Unofficial export from Pakistan

- Unofficial re-entry of banned and controlled items having high import duties or other restrictions on their import

This trade has been going on for centuries through established trade routes and trading families. It has been taking place in the context of a regulated economy on the Pakistan Government side and a free trade economy on the Afghanistan side. Few if any attempts have been made to assess the impact of Government regulations on this traditional system of trade. The Prime Minister of Pakistan is interested in finding out the impacts of the Afghan situation on the Pakistan economy and Mr. Akhund, Adviser to the Prime Minister on National Security, reportedly has undertaken a study on this. An attempt is made in this report to trace out some of the impacts of this trade.

Pakistani Economic Policy

The net result of exchange rate and trade policies have discriminated against the agricultural sector and in favor of industry. Thus Pakistan's domestic terms of trade (between industry and agricultural sectors) have born no resemblance to the international terms of trade between the two sectors. Prices for agricultural commodities have been below world prices at the equilibrium exchange rate. The agricultural prices of domestically produced industrial goods have been a bit higher than world prices.

Over the last three decades, Pakistan has occasionally maintained an overvalued exchange rate, due to which producers of agricultural export commodities receive less for their products than they would with a market clearing exchange rate. Import substituting commodities experience the same

discrimination. Therefore, taxation of the agricultural sector through this mechanism has been very high (from 47 percent in 1961 to 62 percent in 1971 to 21 percent in 1986-87). This does not apply to industry which benefits from tariff and non-tariff barriers on the import of industrial products which more than offset the Rupee's overvaluation. These policies have favored some Pakistan exports by medium and large manufacturers such as producers of farm equipment.

Under a realistic Foreign Exchange regime, the overall net returns to the agricultural sector would have increased substantially, thus attracting a considerable amount of investment, improving the sector's terms of trade, productivity and enhancing the overall economic growth. The prices received by producers for the traded agricultural commodities would have risen substantially if the Rupee had not been overvalued. The cost of traded imports would have increased. The potential increase in cost of traded imports could have been largely offset by allocating the cash foreign exchange resources for the import of agricultural inputs from the least cost sources.

Pakistani-Afghan Trade Regulations

On the Pakistan side, there are no foreign exchange regulations between the Afghani and the Rupee and exchange between the two currencies is freely allowed. In the tribal areas too, there are no foreign exchange regulations, duties, taxes or visa requirements and the tribals can move freely across the border on both sides. The Kabul Government does not exercise any foreign exchange regulations. In the Commander controlled areas flow of trade would depend on the affiliations of each Commander.

Official Pakistani Trade with Afghanistan is subject to similar rules and regulations as is trade with any other country of the world. It is regulated by Import and Export Policy Orders issued in June each year by the Ministry of Commerce. These clearly lay down all the rules governing trade between Pakistan and the rest of the world and include details pertaining to licensing, pricing, import of goods used in manufacturing goods for export, etc. The conditions and procedures of trade under a specific loan, credit, aid or barter agreement are determined by the Chief Controller of Imports and Exports (CCI&E).

The Pakistan Government regulates this trade through a combination of price, trade and financial controls.

Financial controls have been exercised on official/allowed trade. No special financing is allowed. The rest is all private financing and goods are allowed only against opening of Letters of Credit (LCs). Previously LCs

could be opened in Pakistan but currently this has been disallowed in on attempt to discourage smuggling. It was felt that when LC is opened in Pakistan, these goods then enter the Pakistan market and do not go into Afghanistan. There is however little evidence to suggest that this has discouraged re-entry of goods into Pakistan.

Trade is placed in three categories:

- Banned goods
- Restricted goods
- Permitted goods

Most of essential food and fuel items on our study list are in the banned category. Many agricultural inputs are in the restricted category. The banned and restricted items which largely constitute the unofficial trade which is conducted by the private sector. The permitted and restricted categories constitute the official (public and private sector) trade.

Price support and subsidies on basic commodities and essential items necessitate that these be banned or restricted. The GOP finds itself unable to control the resulting unofficial trade due to:

- Socioeconomic considerations which necessitate keeping prices of essential commodities low
- Political considerations which compel the government to keep the tribals happy and also the necessity to provide them alternative sources of revenues other than drug trafficking
- A long border with Afghanistan with hundreds of crossing points and hilly terrains which is difficult to monitor and patrol.

Banned Goods

The prices of basic commodities are kept artificially low by a combination of subsidies and price controls. Until recently, the domestic prices obtainable for Pakistan's major traded agricultural commodities were lower than the international border prices at the official exchange rate and substantially lower at the equilibrium rate.

Trade Policy order 1988, contains a list of negative items, import or

export of which is banned. It is expected that the Trade Policy to be announced shortly for 1989, will further strike down this list and only a few commodities will be retained on the negative list.

Among essential commodities, no foodstuff, grain, livestock, meat, vegetable oil, sugar, etc., is allowed to be exported. Rice is the only exception. No imported good is allowed to be exported. These are important unofficial exports to Afghanistan. The GOP will never agree to lifting restrictions on export of wheat, ghee, etc., even if duties were imposed. They will not forgo the long established price control and subsidy policy.

Restricted Goods

In addition there is a restricted list of commodities. This gives a list of items which can be traded subject to certain restrictions. For instance, maize, soya bean oil, etc., can only be traded by the concerned public sector agencies or need clearance from the concerned Ministry. It is expected that some items will be struck off the restricted list.

Petroleum and petroleum products, coke, rock salt, raw cotton and rice may be exported through public sector agencies.

The export of Fertilizer may be authorized by the Government on the basis of exportable surplus if available. Export of cotton and rice may be undertaken by the private sector subject to certain conditions.

Permitted Goods

Fruit and vegetables, eggs, fish and fish products, wool, skins and hides, etc., are allowed to be exported, as are machinery, agricultural implements and spare parts made in Pakistan.

The imports from Afghanistan are in both the official (permitted) and unofficial (banned) categories.

Transit Trade

A Transit Trade agreement was signed between the two countries in 1965 to guarantee freedom of transit to and from the territories of both countries.

The two authorized transit routes, both open in both directions, are as follows.

- Peshawar — Torkham
- Chaman — Spin Baldak

Goods passing along these routes are entered at the proper customs post, and adequate transit and other facilities are provided by each party at these posts. No duties, taxes or duties of any kind are charged on transit goods. Only transport and other administrative expenses actually entailed are charged. The import of tires under transit trade was disallowed in January 1989 due to complaint of tires reverting back to Peshawar. Separate Storage arrangements are provided for transit goods.

The GOP has undertaken to meet in full the requirements of rail wagons for transit traffic on both these routes. The Pushtuni Forwarding Agent in Karachi insists on getting official rail wagons causing great inconvenience, delays and huge demurrage costs to Afghan traders. This does not however mean that no other means of transport may be used. In fact 50-60 large trailers can be seen stranded at the Chaman post these days as the Mujahideen will not let them through their areas of control.

Proper records for the Pakistani-Afghan Official Trade and Transit Trade are maintained at the Customs Posts at Peshawar and Chaman and these are easily available in published form.

Currently official routes are practically closed, and the transit trade has dropped to approximately 5 percent of its pre-Jalalabad level. In addition, Afghan Banks are not issuing Letters of Credit.

VI. ESTIMATES OF TRADE VOLUME

In this chapter we present our initial estimates of the current volume of unofficial cross-border trade between Afghanistan and Pakistan, and we present the official Pakistani data on legal trade through the end of June, 1988. Although both these types of trade are relevant to the objectives of this study, the corresponding data are not strictly comparable, since they include different products for different time periods, expressed in different units. Those products exported unofficially are generally not allowed to be exported legally and thus do not appear in official data sources. Regarding units and periods of measurement, our estimates of unofficial trade, obtained during interviews, were expressed in truck-loads per day, at the current level of trade, which has varied greatly since the beginning of the siege of Jalalabad (October 1988). The official data currently available are expressed in Rupees (not truck-loads) and cover fiscal years through June 30, 1988. Work sheets and quarterly reports for later periods may be available at a later date, perhaps during Phase II of this study.

A useful comparison of official and unofficial trade can be prepared for expository purposes, however, by converting official trade data into "truck-load per day equivalents", or alternatively, calculating a value for unofficial trade based on current prices and assumed proportions of unofficially traded products. Such calculations, presented in a later section of this chapter, are extremely preliminary, and we urge caution in their interpretation.

The organization of this chapter corresponds to the relevant data available, with separate sections for official and unofficial trade and one section comparing the two in a preliminary manner.

Official Trade

The basic source of data on official trade between Pakistan and Afghanistan is the publication of the Federal Bureau of Statistics entitled *Foreign Trade Statistics of Pakistan*, listing exports and imports on both a country-by-commodity and a commodity-by-country basis. Tables VII-1 and VII-2 present selected series from this publication, itemizing Pakistani exports to and imports from Afghanistan in our selected product groups[2]. Trade in these product groups represents approximately seventy-five percent of the value of Pakistan's exports and ninety-five percent of the value of its imports with respect to Afghanistan. The data indicate that Pakistan's official exports to Afghanistan are roughly twice the trade in the opposite direction, with Afghanistan's exports declining over the period covered. This result, of course, is not surprising, due to war-related damage to the Afghan productive capacity.

The surprising element in these data, if one were to take them at face value, is the low level of official trade between the two countries. Apparently Afghanistan sold only approximately US$ 13.1 million[3] (US$ 12.4 million in the selected commodity groups) in officially traded goods to its neighbor in fiscal year 1988, and bought only about US$ 36.8 million (US$ 27.3 in the selected groups). As we show below, a great deal of this anomaly is explained by the trade in disallowed goods, which we term unofficial trade, but there may be another tendency at work. Reliable interviews indicate that the actual trade in officially allowed goods may be significantly higher than that indicated by the official statistics. Pakistani exports of agricultural implements to Afghanistan, for example, were reported to be approximately Rs. 20 million during fiscal 1988, rather than the officially reported Rs. 2.4 million, and tractors were said to be included in this trade, although none are officially reported as a exported during fiscal years 1987 or 1988. Assuming that these interview responses are generally reliable, three possible explanations for the difference in trade estimates are apparent: (1) some legal trade may not be officially recorded, due to administrative or clerical error; (2) some trade may be carried out clandestinely, even for legal goods; or (3) some exported items may be under-invoiced. The actual conditions and extent of this "non-recorded legal trade" should be investigated during Phase II of this study. Any discussion of official trade between these two countries

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2. We have broadened the "food" category in this table to include all agricultural products, in order to highlight certain differences in the production mix of the two countries.

3. In most instances throughout this report, we quote product values in current Pakistani Rupees, the currency in which the data were collected. At present the exchange rate for the Rupee is Rs. 21.5 = US$1.00. During fiscal year 1988, to which many of the quantities correspond, the average exchange rate was Rs. 17.4 = US$1.00.

Table VI-1. Recorded Official Exports from Pakistan to Afghanistan for Selected Products

(Thousands of rupees)

Product	1987-88	1986-87
Kino	13,083	12,987
Bananas	29,062	34,096
Mangoes	3,489	601
Watermelons	4,558	3,136
Sanuf supari	20,210	2,505
Sweetmeats	0	1,287
Sugar confections	61,189	27,254
Chocolate preparations	61,189	32,338
Biscuits (cookies)	931	1,006
Lemonade	3,165	5,754
Cigarettes	295,525	195,708
Rock salt	1,136	279
Cotton, unprocessed	2,494	0
Finished leather	19,833	16,202
Raw leather	1,110	1,559
Wheat, rice, ghee, animals	N/R	N/R
Other agricultural products	1,697	2,439
Total agricultural products	461,546	329,676
Threshing machinery	2,472	1,178
Tractors	N/R	N/R
N.S. agricultural machinery/parts	721	1,218
Fertilizer	N/R	N/R
Seed	N/R	N/R
Total agricultural inputs	3,193	2,396
Total fuels	N/R	N/R
Total selected exports	464,739	332,072

Note: Specifies all single items in the agricultural products, agricultural inputs, and fuels categories for which total exports or imports exceeded Rs. 1.0 million each year. Remaining items summed together as residuals. Fiscal years end June 30. N/R = not recorded.

Source: Federal Bureau of Statistics, *Foreign Trade Statistics of Pakistan.*

Table VI-2. Recorded Official Imports to Pakistan from Afghanistan for Selected Products

(Thousands of Rupees)

Product	1987-88	1986-87
Dry mash (bean)	13,910	11,915
Dried legumes	224	3,339
Apples	22,948	15,001
Grapes	89,202	104,211
Raisins	3,722	4,188
Almonds	2,724	619
Apricots	1,353	4,193
Pomegranate	12,035	6,016
Musk melon	15,907	20,161
Other fresh fruits/vegetables	1,708	999
Other dried fruit	2,258	1,668
Raw hides	23,624	41,274
Spices	5,389	4,731
Poppy seed	2,358	2,695
Mulhati	1,540	5,607
Other food products	737	944
Plant parts for perfumes	2,612	3,936
Other agricultural products	481	582
Total agricultural imports	202,732	229,384
Crop seed	7,356	1,075
Total fuels	N/R	N/R
Total selected imports	210,008	230,459

Note: Specifies all single items in the agricultural products, agricultural inputs, and fuels categories for which total exports or imports exceeded Rs. 1.0 million in either year. Remaining items summed as residuals. Fiscal years end June 30. N/R = not recorded.

Source: Federal Bureau of Statistics, *Foreign Trade Statistics of Pakistan.*

should mention the extent of "transit trade" or transhipment — those goods imported to or exported from Afghanistan, moving through Pakistani ports but not processed or unpackaged in Pakistan. As indicated in Table VI-3, most of this trade is outside our assigned product groups, but Afghanistan did export Rs. 128 million in fresh and dried fruit through Pakistan in fiscal year 1988 (out of total transhipped exports of Rs. 263 million) and imported Rs. 233 million in tea (out of total transhipped imports of Rs. 2,076 million). Other target items may have been included in the highly aggregated categories of data prepared by the Ministry of Trade, but in general this trade consists of manufactured items, many of which (reportedly 75 percent) actually return to Pakistani border markets by unofficial channels. As interesting as this activity may be, however, it does not directly concern cross-border trade in the target commodities.

Unofficial Trade

Much more relevant to the objectives of this project is the extent of unofficial direct trade between Afghanistan and Pakistan. Unofficial cross-border trade is reportedly much more extensive than official trade and is almost exclusively concerned with the project's target commodities (excluding drugs, arms, and the returned transit trade mentioned above).

The interviews carried out with participants in both official and unofficial cross-border trade during the first 10 days of this project focussed on the volume, routing, pricing, and general conditions of unofficial trade. Research team members asked participants in both official and unofficial cross-border trade to estimate the current volume of traffic in the three target product groups (food, agricultural inputs, and fuel), leaving out legal shipments, transit goods, and public sector and NGO shipments (largely food aid). Answers were often given with respect to one particular set of trade routes, either the standard Peshawar-Torkam route, the new Parachinar routes, or the Quetta border crossings. Although the responses are not a scientifically selected sample survey, they have proven to be remarkably consistent across different types of respondents. The responses judged to be most reliable were those provided by export-import brokers and large-volume exporters.

Table VII-4 presents a summary of the results of these interviews with respect to trade volume. The basic measurement is physical volume per day, measured in standard truck-loads of 10 metric tons, distributed by product and by major route where possible. Also included is an estimate of the volume of the same trade prior to the Jalalabad siege. As indicated, current estimates of the level of unofficial trade volume range from 10 percent to 50 percent of the pre-October 1988 level, depending on the product and the trade route involved. Currently, between 100 and 140 trucks per day are estimated to cross the three major trade routes, carrying illegally-traded

Table VI-3
Afghan-Pakistani Transit Trade

(Thousands of Rupees)

Product	1984-85	1985-86	1986-87	1987-88
	Afghan Exports through Pakistan			
Carpets & rugs	29,224	12,867	16,246	18,785
Drugs & medicines	35,598	79,369	52,600	70,533
Fruits, fresh & dried	73,573	81,236	123,852	127,987
Animal skins	—	—	76	—
Other commodities	22,314	37,630	26,237	45,075
Total	160,689	211,102	219,091	263,380
	Afghan Imports through Pakistan			
Artificial silk fabrics	155	—	1,230	25,456
Artificial silk yarn (including cotton yard)	3,262	146,346	166,471	331,908
Betel nuts	16,937	15,335	2,135	2,362
Building & engineering material	—	—	139	—
Clothing (including second hand clothing)	27,797	602	2,154	4,415
Cotton piece goods (including T.P goods)	10,818	126,649	278,314	314,138
Drugs & medicines	4,581	414	2,295	342

(Continued)

Table VI-3. (continued)

Product	1984-85	1985-86	1986-87	1987-88
Electrical household & appliances	6,903	4,312	36,916	28,421
Glass and glassware	2,485	2,004	—	10,749
Leather & manufactures	—	—	180	—
Hydrogenerated oil (vegetable ghee)	809	—	—	—
Machinery & parts (including spare parts)	2,981	1,732	2,619	2,275
Mineral oil and greases	649	394	1,285	341
Metals & manufactures thereof	2,853	9,466	44,236	19,403
Paper, paper board and stationery	440	18,084	6,940	—
Rubber manufactures	41,451	109,876	482,752	806,053
Batteries & dry cells	12,620	—	548	3,903
Tea	111,804	117,347	140,763	233,363
Vehicles & parts	9,246	35,726	65,936	142,596
Other commodities	26,865	55,961	143,594	150,016
Total	291,366	644,248	1,388,897	2,075,741

Source: Statistics Division, Ministry of Commerce, Government of Pakistan.
Note: Fiscal years ending June 30.

Table VI-4. Current and Pre-October 1988 Volume of Unofficial Cross-Border Exports to Afghanistan from Pakistan by Major Routes and Selected Products (Truck-load Equivalents per day)

Selected products	Major routes: Peshawar — Torkham	Major routes: Parachinar — group	Major routes: Quetta group	Total
Wheat	—	—	—	40-75 (160-320)
Ghee	—	—	—	3-4 (6-8)
Food animals	20 (60-70)	20 (60-65)	3-5 (10-15)	43-45 (130-150)
Other food	—	—	—	4-6 (5-10)
Total food	30-40 —	50-60 (110-120)	10-30 —	90-130 (301-488)
Tractors	—	—	—	.2 (.8)
Threshers	—	—	—	.4 (1.6)
Other implements	—	—	—	.1 (.4)
Subtotal	—	—	—	.7 (2.8)
Implements fertilizer	—	—	—	.2 (.8)
Seed	—	—	—	.1 (.4)
Total agricultural inputs	—	—	—	1 (4)
Petroleum products	0 (varies)	0 (varies)	0 (varies)	0 (varies)

(continued)

Table VI-4 (Continued).

Selected products	Major routes: Peshawar — Torkham	Parachinar — group	Quetta group	Total
Kerosene	4 (8)	2 (4)	3 (6)	9 (18)
Total fuels	4 (8)	2 (4)	3 (6)	9 (18)
Total selected unofficial exports	35-45 (250-450)	50-60 (-)	15-35 (15-35)	100-140 (323-510)

() — Volume prior to Jalalabad siege.

items in the three selected product groups. The level of trade was even greater prior to October 1988, ranging between 320 and 510 trucks per day.

Comparison

Despite the warnings of noncomparability stated in the introduction to this chapter, some type of comparison between official and unofficial trade is necessary for purposes of evaluating total current volume of cross-border activity. We have chosen to convert both types of trade into the units of measurement of the other in order to provide the most comprehensible comparison possible with our limited data. Table VI-5 presents the results.

Comparisons of physical volumes of trade would seem to be most reliable. During the initial interviews, the research team gathered information concerning the quantities of the selected commodities which usually fit one standard ten-ton truck. Official trade, calculated in this manner, reached only 12 standard truck-loads per day in fiscal year 1988, compared to a current minimum estimate of 100 trucks per day of unofficial trade, even after the Jalalabad siege. Prior to October 1988, a period more comparable to the period for the official trade data, the level of unofficial trade was estimated

Table VI-5. Preliminary Estimates of Export Trade Volume for Selected Products

	Unofficial Current	Unofficial Pre-October '88	Official
Transport volume	100-140 trucks per day	320-510 trucks per day	12 trucks per day
Value at Peshawar prices	720-1,000 million rupees per year	2,300-3,700 million rupees per year	465 million rupees per year

at least 320 trucks per day. Unofficial trade, then, currently outweighs official trade by at least a factor of eight to one.

In terms of value, the comparison is much more difficult, since we are even less sure of the proportions of illegal commodities in each shipment than we are of their total volume, and prices vary considerably. Nevertheless, assuming that all commodities in our target groups are of roughly the same unit price as wheat (more than one-half of unofficial cross-border trade is in fact wheat), and using the Peshawar price per kilo of wheat, the annualized value of cross-border trade is estimated at between Rs. 720 million and Rs. 1,000 million at the current rate of activity and between Rs. 2,300 and Rs. 3,700 prior to October 1988. Of course the values would be correspondingly higher using Kabul prices — approximately 3.4 times the Peshawar prices at this writing. At those price levels, the current value of unofficial exports to Afghanistan of our selected products ranges between 2,500 million and 3,400 million Rupees per year, or 7,800 to 12,600 million per year prior to October 1988. These estimates are very preliminary and probably not representative of pre-Jalalabad levels. These trade values estimates compare to the officially reported value of legal exports of the selected commodities for fiscal year 1988 of Rs. 465 million. Even with the most favorable assumptions and calculations possible, unofficial cross-border trade between Afghanistan and Pakistan appears to be much greater than official trade.

VII. IMPLICATIONS FOR PHASE II

This chapter sets out the consulting team's recommendations for the design of Phase II of the cross-border trade study, based on the results of Phase I research. Although these recommendations do not constitute a formal scope of work and staffing schedule, they do provide the substantive basis for the proposed delivery order presented in Appendix A. The first section below abstracts those results of Phase I of most relevance to the Phase II design, while the second section proposes an extended set of objectives for Phase II. The detailed tasks proposed for the second phase of the study are presented in the third section of the chapter, and the final section presents a proposed staffing plan.

Relevant Phase I Results

Rather than present another full review of the conclusions of the current study, as was done in Chapter I and at the conclusion of most other chapters, this section will risk comparing what was done during Phase I with what was not done, as a means of showing what should be done during Phase II. In general, the data collected during Phase I were intended to be only preliminary and indicative in terms of trader profiles, trade volume estimates, and the analysis of the transportation and financial systems. As anticipated, the team did not have direct access to information about Afghanistan and the tribal areas, and the information collected remains to be confirmed and extended.

The most complete component of Phase I research has been the role characterization and general description of the marketing system. In the estimation of the research team, the only missing element in that component of research is the inclusion of interview results from the Tribal Areas and Afghanistan. The effects of segmentation by market areas and commodities, for example, would be clarified by such interviews. In addition, the evidence of oligopolistic control on the resale of donated flour from within the refugee camps should be investigated.

Concerning trade volume, the team produced what it considers to be fairly reliable, though preliminary, estimates of current unofficial trade in the selected commodity groups, but has several reservations concerning the

patterns of this trade over time and its relationship with official trade. Official trade data for Pakistan exhibit several anomalies, identified but not resolved during Phase I, which could be clarified using current work sheets of the Bureau of Statistics or the Ministry of Trade. As is the case for all components of this study, the availability of Afghan and Tribal Area interview data will help resolve many of the outstanding issues concerning trade volume.

Our conclusions in terms of the transportation system are similarly positive and tentative. The existing trade transport system continues to perform as it has for decades, albeit at a reduced level, despite wartime conditions. Difficulties have only led to higher costs and reduced demand rather than structural change. Trucks are available for significant increases in trade: traders indicate that pre-Jalalabad levels could be exceeded if necessary and that vehicles used previously remain available if political conditions and economic demand warrant their use. These private traders have been very resourceful in keeping business channels open under difficult conditions, constructing new tracks and by-passes as roads are closed or mined. At the same time, the added cost of using such routes has driven the prices of goods beyond the reach of many Afghans. During Phase II, more information will be required on traffic composition by vehicle types and the quantitative impact of transportation conditions on freight rates.

Regarding the means of financing cross-border trade, our conclusions are more sanguine, if still incomplete. There appears to be no significant financial limitation on trade. Many merchants are well endowed, financing their own investments and expressing a desire to finance more, and the informal hundi banking system appears to function effectively and exhibit capacity for growth. The actual extent of trade finance met by the informal systems remains to be assessed, as does the possibility that the lack of formal finance might be a constraint to trade in the future, the statements of interviewees notwithstanding.

The Phase I team's work on Pakistani government policy was fairly conclusive, but does require confirmation. The extent to which cross-border trade can be increased given the current policy environment is a particularly important issue. Equally important is the question of whether there exist strictly officially acceptable means of carrying out at least part the current unofficial trade.

Phase II Objectives

The overall goals of this study common to both Phases I and II are to describe the magnitude, structure, and dynamics of private-sector trade between Pakistan and Afghanistan in specified commodities (agricultural inputs, food, and fuels) and to analyze inherent capacities, constraints and opportunities of the marketing system. In addition to extending, modifying,

and confirming Phase I results, however, Phase II will extend research objectives in two major ways: (1) it will include analysis of products outside the three original commodity groups, specifically building materials, but generally including all items of direct relevance to the process of resettlement; and (2) it will include informal projections of the magnitudes mentioned, based on simple resettlement scenarios.

Specifically, the objectives of Phase II are as follows.

- To quantify existing trade by commodity
- To extend the analysis of, and if possible to quantify, the means of financing cross-border trade
- To detail marketing channels, concentration, segmentation, and constraints as well as trader profiles
- To specify prevailing prices and freight rates by location, quality, and trader type
- To analyze the capacity of the goods distribution system and the potential of principal Mujahideen markets in their areas of influence
- To determine the availability or scarcity of key commodities, including food products, agricultural inputs, fuels, and construction materials
- To analyze contextual implications of PVO cross-border delivery systems and U.S. and Russian assistance
- To project the basic magnitudes mentioned above under standard resettlement scenarios

Understanding these trade patterns is essential to O/AID/REP planning for supporting activities such as refugee resettlement, commodity delivery, rehabilitation of Aghanistan's transportation system and general infrastructure, and strengthening the country's private sector. Practical program planning must take account of the potentials and realities of existing cross-border trade practices and private sector participation in this trade. As pointed out at the beginning of Phase I research, this imperative holds whether or not O/AID/REP is directly involved in long-term projects in these specific areas, since the goals of the Office are expressed in the context of multilateral support of Afghan rehabilitation and reconstruction.

Phase II Tasks

The Phase I scope of work listed five tasks for Phase II: (1) collecting Afghan-side data, (2) detailing market channels and trader profiles, (3) quantifying current and projected trade, (4) completing the analysis of the financial system, and (5) recommending future approaches. Based on Phase I experience and the objectives above, we recommend extending these tasks to include an expanded Pakistan-side survey and to include four additional components. The new set of tasks includes elements of data collection, subsequent analysis, and design of recommendations. The three data collection tasks are as follows.[4]

1. Trade Survey. Conduct a formal survey of cross-border trade in Afghanistan and, on a smaller scale, in Pakistan (including tribal areas). There are four components: (a) Marketplace Survey, (b) Wholesaler Survey, (c) Traffic Counts, and (d) Transport Observation. [Social Anthropologist, Survey Coordinator, Marketing Economist]

2. PVO Survey. Summarize relevant PVO delivery systems and United States commodity assistance programs. Quantify and compare them and their impact on global Afghan trade, including the Russian component. Examine potential for collaboration with private traders. [Team Leader, Policy and Trade Analyst]

3. Policy Review. Review existing studies of GOP fiscal, financial, trade and subsidy policies relevant to cross-border trade. [Policy and Trade Analyst, Technical Assistants]

The information collected during these activities would then be analyzed in three separate stages, as follows.

4. Market and Financial System Profile. Complete systematic descriptive trader profiles, marketing channels, financial arrangements and constraints. [Marketing and Financial Economists]

5. Trade Volume. Quantify existing private trade and projections

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4. The team members proposed to carry out these tasks are indicated in brackets after the brief description. Skill combinations are to some extent arbitrary and can be accommodated to those of available staff.

of demand and trading trends based on specific scenarios. [Marketing Economist and Policy and Trade Analyst]

6. Distribution System Capacity Analysis. Study wholesaling capacity of second-level towns and their potential role as regional or national centers; quantify demand in their areas of influence. [Marketing Economist and Survey Coordinators]

The final two tasks would concern the development of recommendations based on the results of the first six tasks, as follows.

7. Strategic Recommendations. Recommend future approaches to monitor, analyze, and facilitate the cross-border commercial system [Entire team, including Marketing Economist, Survey Coordinators and Social Anthropologist]

8. Study Recommendations. Suggest areas within the studied trade, transport and credit systems which might be useful to look into in further detail in support of O/AID/REP programming.

Each of these tasks will now be described in more detail.

Task 1: Trade Survey

Trade survey field data will be collected through four inter-related component studies, as follows.

- Marketplace Survey
- Wholesaler Survey
- Traffic Counts
- Transport Observation

Table VII-1, below, indicates the information to be collected in each component study. All data are to be cross-checked among two or more components.

Table VII-1. Data to be Collected in Each Component Study

Data collected	Market-place survey	Whole-saler survey	Traffic counts	Trans-portation observation
Trade volume by commodity	X	X	X	X
Market and trader profiles	X	X	-	X
Constraints and opportunities	X	X	-	X
Prices & freight rates	X	X	-	X
Wholesaling capacity & potential	X	X	X	-
Availability & scarcity of goods	X	X	X	-

Following is an outline description of each of these four study components.

Marketplace Survey

Eight marketplaces will be studied, including five Mujahideen markets near the border in Afghanistan (roughly corresponding to the five participant observation destinations) and three Pakistani markets (two in Peshawar and one in Quetta). Four two-person teams, consisting of Afghan interviewers preferably with college-level training and prior successful survey experience, will spend one week in each location. At a minimum, these interviewers should have educational qualifications equivalent to school teachers.

Marketplace teams will utilize predesigned forms to record: (1) marketplace size and layout, (2) number of wholesalers by commodity and size, (3) wholesale and retail prices for 10 to 15 selected commodities and qualities, and (4) stockpiled quantities for specific items and, where possible, their origin.

The teams will receive one week of training in Peshawar markets. A total of six teams will be selected and trained, to allow for attrition.

Wholesaler Survey

A total of 80 usable (complete and unbiased) interviews with cross-border wholesalers will be obtained — 10 in each of five major Afghan market towns such as Khandahar, and 15 each from Peshawar and Quetta. Only wholesalers dealing directly in cross-border trade will be surveyed. The interview will include items on the costs and constraints of cross-border transport. The sample will also be limited to wholesalers dealing in foodstuffs, agricultural inputs, and fuels. Specifically, a quota sample will be drawn to ensure coverage of the full range of variability. The proposed quotas are shown in Table VII-2. The interview will cover the full range of products specified by O/AID/REP. Table VII-3 shows a preliminary list.

Four Afghan interviewers, with backgrounds similar to those proposed for the marketplace survey, will each conduct twelve interviews per week for two weeks. It is assumed that about twelve interviews will be required to obtain ten usable interviews. Interviews will utilize a structured questionnaire form designed to last approximately one hour. All the information items listed above will be included in the interview.

Wholesaler interviewers will receive one week of training in Peshawar. A total of six interviewers will be selected and trained, allowing for attrition.

Traffic Counts

Traffic counts of trading vehicles reaching the border from both sides will be obtained through direct observation at eight major crossing points — two official and six unofficial. Counts will be made for three week-days at each location. Unobtrusive observation will be employed, with researchers strategically located to record activity without being seen. Observations will include location, date, time and direction of arrival, type, capacity and licensing country of vehicles, deduced cargo, and proportional loading (half/full). This study will require two observers for three weeks, which includes one day of training. Three observers will be trained and initiate data collection, to allow for attrition.

Transport Observation

Observation of cross-border transport will focus on wheat or wheat flour exports. It will involve participant observation by teams of two observers, one tribal Pakistani and one Afghan, riding on the trucks with cross-border traders from Pakistan to their destination in Afghanistan. Each team will observe interactions along the way, utilizing a structured observation recording form, and adding their own qualitative observations. In addition, the team will use a separate form to make traffic counts of trucks

Table VII-2. Proposed Quota Sample

Wholesalers of:	No.
Wheat/Wheat flour	15
Vegetable Ghee	10
A Fresh Fruit (in season)	10
Raisins	5
Bullocks (for slaughter)	10
Bullocks (for traction)	5
Farm Equipment/parts	10
Seed/Fertilizer	5
Kerosene/Diesel Fuel	10
	80

Table VII-3. Preliminary List of Products To Be Studied
Basic Foodstuffs

		Wheat
		Wheat Flour
		Vegetable Ghee
		Rice
		A fruit from Pakistan in season
		Raisins or Grapes
		Bullocks (for slaughter)
Agricultural Inputs*		
	Farm Equipment	
		Tractors
		Tine Tillers
		Threshers
		(Irrigation) Shovels
	Seed	
		Wheat Seed
	Fertilizer	
		DAP
		Urea
	Fuels	
		Kerosene
		Diesel

*The list of agricultural inputs has been agreed upon with ARD personnel.

passing in both directions. This count will be corrected mathematically to obtain rough estimates of daily traffic.

The tribal Pakistani will be the senior member of the observation team, responsible for maintaining objectivity of the data. The Afghan team member will be an "insider" native to the destination area and familiar with cross-border trade.

Major data to be recorded will include : (1) the purchase price of the wheat in Pakistan, (2) the selling price of the wheat at the destination, (3) any utilization of tribal intermediaries, (4) points in Pakistan where "tips" are paid — and amounts, (5) any unloading/reloading of the cargo or license plate changing at the border, (6) points in Afghanistan where "tips" are paid — and amounts, (7) distances to destinations, (8) costs of fuel, (9) other transport costs, (10) travel times (11) road conditions, (12) other constraints, (13) traffic counts with comments on the size of trucks and types of cargo.

The study is based on a quasi-experimental design with six "treatments". Teams will travel with trucks transporting wheat to five of the major Afghan market areas such as Logar, Ghazni, Wardak, Waza Khwa, Sorobi, Kunar, and Khandahar. The sixth treatment will be a "control" comparison, riding with transporters carrying a similar commodity for the U.S. assistance program.

It will be very difficult to gain the necessary cooperation for conducting this study. The inducement to participating Pakistani traders will be (1) the potential for establishing a "special" relationship with O/AID/REP for buying and distributing wheat, if the large-scale private-sector distribution plan is adopted (2) the trust they have in the Pakistani tribal interviewer and, if necessary, (3) the payment of a fee. In addition, all participants must be guaranteed anonymity, which can be achieved by the use of code names throughout.

The observer team will remain with the wheat until it is sold. If it is sold to another trader/transporter at the border, the observation ends there. If it continues to an Afghan market with the same trader or his partner, the team will continue with the truck. It will be up to the Pakistani trader to obtain the necessary agreement from his Afghan partner. O/AID/REP should consider carefully which elements of the above information are absolutely necessary and limit data collection to these items.

Upon arrival, the participant observation team will interview the purchaser regarding the continued forward movement of the wheat shipment through other wholesalers and retailers to consumers. They will also interview the transporting wholesalers concerning what products will be carried back to Pakistan on the truck. Then, they will return to Pakistan either with this truck or with another leaving sooner.

Each team will conduct two such participant observation trips. One week is allocated for each trip and return. Thus, a total of three teams will be needed. To allow for attrition, five teams will be selected and trained. The training will last one week and will be conducted in cooperation with an AID. contractor such as ACLU and one friendly cross-border trader.

Task 2: PVO Survey

The PVO survey will study the experience of international assistance organizations with transporting goods from Pakistan into Afghanistan. These data will permit four analyses.

- Comparison of public and private approaches (using data from the Trade Survey) in terms of variables such as costs, coverage, and constraints
- Identification of specific tactics which have proven effective in delivering assistance commodities into Afghanistan
- Consideration of potential approaches to linking public commodity assistance delivery systems with private sector traders
- Analysis of the potential influence of AID's commodity assistance program with respect to global supply and demand in Afghanistan under various scenarios. This contextual analysis will include consideration of published data on Soviet assistance.

Data collection will consist of two parts: (1) summarizing relevant documents from O/AID/REP and the PVOs, and (2) interviewing PVO staff. An expatriate economist, probably the team leader, will interview principals and transport specialists in Peshawar and Quetta representing relief agencies delivering commodities inside Afghanistan. Semistructured interviews will be conducted utilizing an interview guide. Information to be obtained includes: (1) contractual arrangements (2) modes of transportation, (3) volume, (4) costs, (5) constraints, and (6) control systems. A total of 20 interviews are anticipated. Three weeks are budgeted for the expatriate economist (two interviewing and one writing) and one week for a local assistant.

Task 3: Policy Review

Existing studies of relevant GOP and GOA policies (both pre-war and current) will be reviewed. These will include studies completed by AID. and other international agencies. Policies will be analyzed concerning how they have affected official, aid-related, and unofficial cross-border trade.

Task 4: Market and Financial System Profile

Market channel diagrams drafted in Phase I will be refined and specified for the various commodity categories considered. Trader profiles will be developed into true typologies. Better resolution of the types of traders occupying each status and the incidence of traders fulfilling multiple roles will be sought.

Market centralization and segmentation will receive special study. For each commodity group, centralization will be estimated in terms of the share of cross-border trade controlled by the five largest wholesalers in each center — Peshawar and Quetta. Segmentation will be studied in terms of the number of individuals from whom approval must be obtained and the number of intermediary agents employed to purchase, transport and sell commodities across the border via different channels.

Particular attention will be devoted to cross-border trade in wheat and wheat flour, especially the component involving U.S.-donated wheat from refugee camps. Researchers will attempt to identify and describe the organizations involved and the processes through which wheat is obtained, transported and sold. They will specifically seek out "rebagging" operations designed to camouflage the source and attempt to describe the costs of these operations. This analysis will estimate the volume of trade stemming from refugee camps and its proportion of wheat available in Afghan markets.

The analysis of trade finance will seek to estimate the actual extent of trade finance met by the informal systems and will carefully consider whether the lack of formal finance might be a constraint in the future, the statements of interviewees notwithstanding. A particular element of concern is whether the lack of a formal clearing system would hinder the use of the hundi system when the trade volume — and consequently the volume of outstanding, uncleared hundis — reaches significantly higher levels. An attempt will be made to determine the sensitivity of trade volumes and prices to the direct and implicit costs of informal finance.

Credit issued by wholesalers, consisting largely of purchases of crops in advance, will be examined in detail. Wholesalers interviewed during Phase I reported such activities, but one Afghan reported that payments to farmers are usually a year behind and suggested that payments from Pakistani wholesalers may only reach Afghan wholesalers, not the intended farmers.

Market constraints and opportunities will be analyzed based on characteristics such as market integration and competition, transport conditions, and the regulatory environment.

Task 5: Trade Volume

Trade volume data will be collected during all four component studies of the trade survey. Interviews will be formalized and extended to include respondents within Afghanistan. The analysis will revise and complete Table VI-4 of the Phase I report, which estimates unofficial exports from Pakistan to Afghanistan (both current and pre-October 1988) by route and commodity. The revision will be based on a selection of the most reliable and consistent information from all four studies. In addition, researchers will seek access to statistics on permits issued for transport of selected commodities into tribal areas kept by Political Agents and manufacturers (e.g., flour millers and ghee factories).

Finally, official trade data will be extended, if possible, by using current official work sheets of the Bureau of Statistics and Ministry of Trade to supplement published statistics. Differences in reported official trade and interview responses will be identified and their causes analyzed.

Task 6: Distribution System Analysis

Geographic analysis of Trade Survey data will examine the wholesaling capacity of secondary market towns in Afghanistan and consider their potential role as regional or national trade centers. The analysis will quantify and compare levels of trade, potential market capacity, transport routes/costs, and demand levels in each town's area of influence. Trade Survey data will be supplemented by pre-war Afghan market studies as well as analysis of demographic and other demand indicators by Afghan province. Such analysis is important as long as Kabul remains in Communist hands, and for consideration of decentralizing Afghanistan's traditionally centralized marketing system.

Task 7: Strategic Recommendations

On the basis of the above analyses, further detailed clarification of O/AID/REP objectives, and continuing discussions with A.I.D. staff, the consultants will recommend approaches for utilizing private sector cross-border trade capacities in the furtherance of A.I.D. goals. Strategies for facilitating cross-border trade and guiding market transactions in desirable directions will be examined. Recommendations will include techniques for periodic monitoring and analysis of cross-border trade, such as periodic review of prices and margins between Peshawar/Quetta prices and prevailing credit terms to Afghan traders and farmers.

sk 8: Study Recommendations

Finally, the Phase II team will suggest topics for further study within ese trade, transport and credit systems, in accordance with O/AID/REP rogramming needs.

Required Staff

On the basis of the above objectives and tasks, the consultants have determined the following staffing requirements.

Specialist Team

The contractors propose to mobilize to Pakistan a Specialist Team of six researchers as follows.

- A Team Leader with experience in the region and the field of management
- A Trade and Marketing Economist with experience in the analysis of marketing systems and international trade in developing countries
- A Transport Economist familiar with the Afghan-Pakistani cross-border transport system
- A Financial, Trade, and Policy Analyst specialized in the evaluation of the impact of financial and trade policies on trade efficiency
- A Social Anthropologist with a background in the social analysis of LDC market institutions and interactions as well as regional experience
- A Survey Coordinator with considerable experience in managing complex social surveys and fluency in relevant regional languages

Given the importance of this study, we recommend that O/AID/REP approve the inclusion of a managing Officer in Charge for the team, who would make one site visit during the course of research and would oversee final report preparation. In addition, short-term technical back-up support for this team will be required in the United States.